BANK OF MONTREAL

167th Annual Report 1984

Bank of Montreal, founded in 1817, is the oldest bank in Canada. It has participated in many transportation, industrial and energy projects fundamental to the development of the nation and the growth of trade abroad.

The Bank established foreign representation in London and New York in 1818. Today, more than 33,000 employees provide personal, commercial and corporate financial services through 1,183 branches across Canada and offices in 20 countries around the world, linked by a global information system.

With assets in excess of $70 billion, the Bank of Montreal is one of the largest banks in North America.

(cover)

MAHONE BAY, N.S.

The Bank of Montreal has operated on Main Street since 1899 and now is the only bank serving Mahone Bay, Nova Scotia. Three staff members and Manager Howard Delaney serve a population of 1,228 as well as a 500-square-mile surrounding area. Founded in 1754 to service the schooners of the West India trade and the North Atlantic fishing fleets, Mahone Bay was named for the "mahonne," a pirate boat equipped with both oars and sails.

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The Year's Highlights

For the Year Ended October 31

($ in millions except per common share amounts)	1983	1984	Increase (Decrease) %
Earnings Information			
Net income	$ 283	$ 283	–
Dividends			
Common shares	126	135	7
Preferred shares	34	53	55
Return on average assets	0.44%	0.42%	(5)
Return on average common shareholders' equity	12.63%	10.63%	(16)
Balance Sheet Information			
Assets	$63,194	$76,491	21
Loans	41,546	47,929	15
Deposits	55,320	66,671	21
Capital and reserves	2,388	2,946	23
Total capital and reserves to total assets	3.78%	3.85%	2
Common Share Information			
Number of common shares	65,383,266	70,497,599	8
Number of common shareholders	74,481	98,280	32
Net income per common share			
Basic	$ 3.87	$ 3.37	(13)
Fully diluted	3.72	3.30	(11)
Dividends declared per common share	1.96	1.96	–
Share Price			
High	33.625	28.375	(16)
Low	23.50	21.375	(9)
Close	27.125	23.625	(13)
Book value	30.52	31.51	3
Other Information			
Number of branches	1,218	1,222	–
Number of employees	29,125	33,598	15
Number of automated banking machines	324	470	45

Chairman and Chief Executive Officer William D. Mulholland, left, meets with Senior Vice-Presidents Michael R.P. Rayfield, and J. Douglas Gibson, at the premises of Corporate and Government Banking in First Canadian Place, Toronto.

Looking back to the beginning of 1984 at the scope of the political changes which have occurred in the Bank's operating environment, a consistent thread seems to be discernible. Although the changes have been complex and global in their breadth, and doubtless reflect many diverse factors, the trend towards greater reliance upon market forces and a growing disenchantment with the effectiveness of government intervention is becoming clearer day by day.

Perhaps the most dramatic single example of this trend is to be found in the People's Republic of China. It may be a misnomer to speak of market forces in a China context, but a major effort is clearly under way to place greater reliance upon individual incentives as a means of stimulating economic activity. Given the natural industry and talent of the Chinese people, the consequences of this policy initiative are almost bound to be of great importance not only to China but elsewhere as well. In a number of other countries, legatees of an economic philosophy similar to that now being reshaped in China, these developments will no doubt be watched very closely. A successful experience in China will produce echoes in the future impossible to predict, but very likely of historic dimensions.

The Japanese decision to de-regulate its financial markets and to admit foreign institutions to broader participation in its domestic markets is an important change, marking as it does another step in the emergence of Tokyo as one of the world's important financial centres. Japan has benefitted

enormously from the international trading and monetary systems created in the aftermath of World War II. Its skill in managing its participation in these systems has elicited the well-deserved, if at times rueful, admiration of its trading partners. Recent events suggest, and it would be a welcome development indeed, a growing acceptance in Japan of the two-way nature of its participation in the international economic system and a greater willingness to allow market forces to shape the basis of its participation.

In North America, with recent elections in both Canada and the United States, a similar trend was clearly evident. The same can be said of a number of Western European countries. Interestingly, the nominal positioning of governments and political parties in the political spectrum no longer appears to be as reliable an indication of their policy orientation as it once was. This is frequently described in terms of greater pragmatism. It could also be said to indicate a long overdue convergence of the political with the real world.

We may well profit from an examination of the sources from which these forces spring. It may be that the formula for the extended period of post-war prosperity has finally failed—collapsing literally of its own weight. Heavy and ever-increasing deficit spending, the cumulative effect of which is an increasing debt load and consequently still more government spending to service the debt, may have stimulated public and private consumption at the expense of capital accumulation and investment. Inflation sparked even greater emphasis upon consumption, but it also did so at the expense of those who save and invest. The result may well be a relative decline in per capita output and, consequently, in living standards. One result is already evident, a consistently high level of unemployment.

In the coming year, and no doubt thereafter, an economic imperative in many of the countries in which the Bank operates will be job creation. The emergence of semi-permanent unemployment on a massive scale is a condition that cannot be tolerated for long without risking grave consequences. At last report, unemployment in the OECD countries alone totalled 31 million. Even in this era of "social safety nets" this represents an awesome human cost and a staggering loss of production.

Probably no one knows the comparable figures for the Third World. But the economic wastage of 31 million unemployed in the industrialized countries will be multiplied many times over in terms of its impact upon economic activity in those less developed countries whose economic fate is inextricably tied to the health and accessibility of markets in the industrialized sector of the world economy.

Whether an adequate level of confidence can be engendered without a substantial amelioration of unemployment is a good question. It is difficult to believe that a large and continuing minority of unemployed workers will not have a deleterious effect upon the attitudes and behaviour of society as a whole. Indeed, the very essence of a society, a measure of shared values and interests and the ability to think and act cohesively, is threatened by the continued existence of the blight of massive unemployment.

Against this backdrop, any attempt to interpret recent political developments in ideological terms is probably drawing too long a bow. That is not to say that ideologues have not won public favour. More plausible, however, is the notion that in rejecting discredited formulas, people are casting about for a substitute and are willing to give a chance to anybody with a plausible alternative. The public in many countries has correctly sensed the intellectual poverty of the politico-economic policy thinking that has dominated most of the industrial world for the past three or four decades. In each country, this growing disillusionment manifests itself in its own way but it is becoming clear that not only the public but also governments themselves are becoming increasingly skeptical of the efficacy of government intervention as a solution to every problem.

In the meantime, individual initiative, incentives, productivity, the free market, and the private sector seem to have been re-discovered and are now enjoying an exhilarating rehabilitation in official esteem. Cynics will see this as analogous to the deathbed repentance of a lifelong sinner. The optimists will rejoice at the return of the prodigal. Either way, there is a big job to be done and little time in which to do it.

In our own country, persistent unemployment is in part a reflection of the seriously reduced levels of investment which have so far characterized this decade. This is due in part to the serious damage done by the recession to the financial health of Canadian business. The increase in the volume of debt, the increase in the ratio of debt to equity, the shortening of the term of debt and, finally, the impact upon cash flow of high interest rates and poor sales constituted a heavy millstone around the necks of many companies. For those businesses which weathered this disastrous combination, a reduced ability to invest and diminished confidence in the future tended to inhibit investment, a condition which has persisted well into the recovery. In these circumstances, the persistence of high levels of unemployment is not surprising. At the same time, a highly competitive environment and an inability to raise prices are forcing companies in many industries to reduce their costs in order to survive.

An endless succession of articles and speeches has observed on the necessity for "adjustment" by the industries of the industrial countries. This reminds me of the story about the hero of a naval engagement in an earlier age who, when called upon by his opponent to surrender, is reported to have cried out, "I have not yet begun to fight!" Overhearing this, one hard-pressed sailor, in the thick of the battle, turned to his mate and said "There's always some fool who didn't get the word." Many companies, having had about as

much adjustment as they can take, will doubtless identify with that sailor. While the adjustment process must run its course, it is not helpful to the near-term employment prospects; the benefits lie in the future.

What then can be done to encourage job creation? A major barrier to business investment continues to be the high level of real interest rates. The past year has seen very little, if any, improvement in this regard. Given the very considerable progress which has occurred in reducing the level of inflation, it is difficult to find any reason for the current level of interest rates other than the continuing high budgetary deficits in North America. The financial markets are only too well aware of the current impact of financing these deficits and, more importantly, of their future inflationary implications. Until this issue is faced up to and dealt with convincingly, a major, sustained change in capital investment, from either domestic or foreign sources will be difficult to bring about.

Admittedly, events in the United States will have an important influence upon the economic environment in Canada. While it is appropriate to acknowledge this relationship, it is not right that it should be allowed to become a crutch. There is a great deal that we can and should be doing to help ourselves. In this connection, it is encouraging to note the priority being given by the government of Canada to placing the fiscal affairs of the nation on a sounder footing. This will not be easy to do, but it is essential to a healthy economic future. For this reason I would hope that this objective of the government will be strongly supported.

In an era of rapid change such as that which we are experiencing, it is always difficult to see with clarity the right course to follow. This is especially so when, as has been evident for some time, the pattern of change represents a discontinuity. The pattern of cyclical change which followed World War II, even allowing for variations in timing and severity, had a certain rhythm and inherent stability to it. We could always count on the predictability of the pendulum, so to speak. Because no business managers now active have worked in any environment other than this, on-the-job training is very much in fashion these days.

Contrary to what some of our pundits may think, the process of industrial adjustment *is* taking place. The impact and timing varies from sector to sector and from country to country, but in some degree the process is going on all over the world. No one knows how long it will last or when a new equilibrium will be reached.

Until such time as the world is restored to a more stable path, businesses are in for challenging times. They also are faced with great opportunities,

the focus being on investment and job creation. How businesses respond will influence importantly in the years ahead society's attitude toward them. By and large, governments can be expected to reflect the attitudes of society. So, whether the current thaw in official attitudes towards business and its values is shortlived or enduring will depend very much on how we respond.

Turning to our own affairs, the main thrusts of the Bank have been described to shareholders on a number of occasions and there is not a great deal to be added to what has already been said. What is perhaps worth noting, however, is that the major initiatives continue to be pursued largely as envisaged and for the most part in the time-frame contemplated. This represented a conscious decision not to postpone or curtail strategic projects, although the strain on our resources has been significant, due in part to external events such as the recent recession.

Broadly speaking, these projects fall into two categories. The first might be characterized as "deferred maintenance". These are projects which needed to be done in any event to correct deficiencies, obsolescence, etc., and which were best undertaken in a planned way in concert with other objectives and activities of the Bank. The Integrated Financial System and the consolidation of the financial management function are an example of this. Many of the items in this category have important internal control aspects and it was thought unwise in the current environment to defer such projects, inconvenient as the timing might be.

The second category could be called "strategic positioning" and these are projects aimed at placing the Bank in a superior competitive position in the world as we see it in the future. The Harris merger and the integration and automation of our international systems are two examples.

The scope of activities being carried on above and beyond the normal day to day workload is very considerable. This in itself entails certain risks which are justifiable only in terms of the best interests of the Bank. The long lead times and expense associated with many of these projects impose a heavy penalty for stop and go management. Similarly, the interdependencies between many strategic projects are so great that cancelling or deferring one can create problems with others. All of which is to say that having committed ourselves to a number of ventures important to the future well-being of the Bank, it is best, if possible, to see them through to a successful conclusion, notwithstanding the somewhat inhospitable current environment.

In undertaking a number of strategic initiatives, it has been necessary to accept some risks. For instance, a number of decisions such as the one in 1978 setting in train the worldwide integration of the Treasury function, anticipated by several years the successful implementation of our strategy of convergence in systems development. Similarly, the conversion of the domestic on-line banking system to a dual currency processing capability

anticipated the Harris merger of a few years later. Because of the long lead time involved and the need for integrated planning and discipline in the strategic process, these risks have to be taken—carefully calculated and managed—but accepted. Fortunately, I can report that we have not encountered any unpleasant surprises or major setbacks.

There are two reasons for bringing this subject to your attention. First, to emphasize the point that if business is to rise successfully to the challenge of our times, then we must have faith in the future and in our ability to cope successfully with whatever it brings. It then remains to equip ourselves as well as we know how to compete successfully and to serve our customers better. Businesses that fail to do this are trusting their future to luck.

Second, although we have had some disappointments we have had far more successes. I am very pleased with the progress to date in carrying out the very demanding and challenging agenda which we set for ourselves. While there are still a number of activities under way which remain to be completed, it would be fair to say that the biggest risks are behind us. It is to the great credit of the people of the Bank that they have not only accepted this challenge, but have met it so successfully and with a record of achievement to be envied.

W.D. Mulholland
Chairman and Chief Executive Officer

Global Developments

The world economy strengthened significantly in 1984. Industrial world output rose by 4.75% last year, up from the 2.6% rate posted the year before. This quickened pace spilled over into the developing countries, where a 3.75% real output gain contrasted to the weak 1% growth in 1983. Trade volume grew by more than 8% in 1984, the best performance in over a decade. The crisis atmosphere of the global debt problem was considerably diminished in 1984.

Impetus for the improved global economic performance last year was provided principally by very strong growth in the United States and the further strengthening of the U.S. dollar. This was mirrored in the surge of exports from both developed and developing countries to the U.S. During the first seven months of 1984, exports to the U.S. from Europe rose by 40%; from Canada 32%; from Japan 46%; and from Brazil 57%.

The rise in the U.S. dollar also had some negative side effects. It prevented monetary authorities elsewhere from adopting expansionary monetary policies which might have strengthened their domestic economies and it drove up the non-U.S. prices of oil and other primary commodities.

Other countries welcomed the relaxation of U.S. monetary policy and the drop in U.S. interest rates in the second half of 1984. However, they did not welcome the cause: a slowdown in the U.S. economy.

Canadian Economic Developments

From the fourth quarter of 1983 to the fourth quarter of 1984, Canada's real GNP advanced by less than 4%. The unemployment rate changed little over the year, remaining above 11% through November. Canada's inflation performance continued to improve in 1984, actually surpassing U.S. performance in the second half of the year.

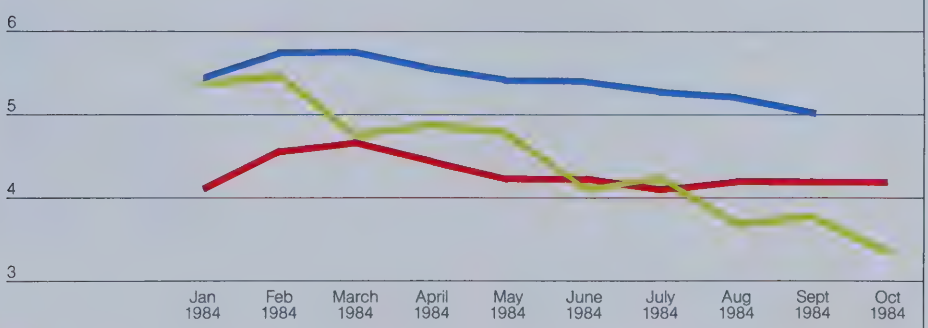
Export growth—especially to the United States—was the driving force behind Canada's output performance in 1984. Domestic demand growth, by comparison, remained weak. This was reflected in the slow pace of housing activity, the slight growth in business investment and the very modest rate of inventory building; it was further reflected in weak mortgage, consumer and total business credit demand. Federal government borrowing, in contrast, was up 18.8% annualized over the first ten months of the year.

With import growth somewhat restrained by weak domestic demand, and exports advancing strongly, Canada's trade surplus improved dramatically. The Canadian dollar nevertheless came under significant downward pressure early in 1984, falling from about 80 cents U.S. in February to about 75 cents in July.

One important factor in the dollar's performance was the Bank of Canada's decision not to match rising U.S. interest rates early in the year. To prevent an even more substantial decline in the dollar, the Bank of Canada soon allowed Canadian interest rates to rise more sharply than in the U.S.

The maintenance of a significant and widening spread between Canadian and U.S. short rates led to the Canadian dollar's slight appreciation to about 76 cents U.S. Interest rates in Canada subsequently moved lower in response to the downward movement of U.S. rates; by late December, Canadian prime had fallen to 11.25%.

Consumer Prices
12-month % increase



	Jan 1984	Feb 1984	March 1984	April 1984	May 1984	June 1984	July 1984	Aug 1984	Sept 1984	Oct 1984
U.S.A.	4.1	4.6	4.7	4.5	4.2	4.2	4.1	4.2	4.2	4.2
Canada	5.4	5.5	4.7	4.9	4.8	4.1	4.2	3.7	3.8	3.4
OECD Average	5.4	5.8	5.8	5.6	5.4	5.4	5.3	5.2	5.0	*

*October OECD figures not available at publication date.

U.S. Economic Developments

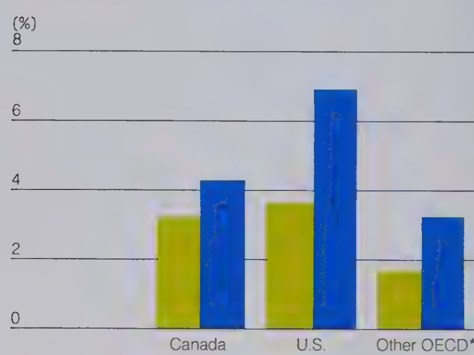
The most notable feature of the continuing U.S. recovery in 1984 was the sharp disparity in real growth rates between the first and second halves of the year. Encouraged by the continued moderation in inflation, improving consumer and business confidence and strong fiscal stimulus, U.S. real GNP rose at a remarkable annual rate of 8.6% in the first half.

Heightened fears of renewed inflation caused bond markets to deteriorate. Federal Reserve policy was also tightened significantly, as evidenced by the nearly 2.5% rise of the federal funds rate between February and August.

Financial market sentiment changed materially in mid-year. Fears of inflation receded, inducing an early summer bond market rally, given added support by the slowdown in U.S. real GNP growth to 1.9% at an annual rate in the third quarter and 2.8% in the fourth.

In response, Federal Reserve policy eased decisively. The result was a significant decline in the federal funds rate, prompting the Federal Reserve to cut its discount rate to 8%. Other short-term rates posted substantial, though more modest, declines.

Real Growth of Gross National Product



	Canada	U.S.	Other OECD*
1983	3.3%	3.7%	1.7%
1984	4.3%	6.8%	3.3%

*Australia, Austria, Belgium, Denmark, Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom.

The Outlook For 1985

Canada

Canada's output performance is expected to be rather subdued in 1985. Interest rates are likely to decline somewhat and inflation will remain well under control, but little or no improvement in unemployment is expected. U.S. import demand, including goods from Canada, is expected to be sluggish. The new federal government has indicated it will take aggressive steps to control deficits. Establishment of Investment Canada and changes to the National Energy Policy should encourage capital inflows. These initiatives together should permit a reduction in the spread between Canadian and U.S. interest rates without an unacceptable decline in the value of the Canadian dollar, and lead to modest increases in interest-sensitive spending, limited, however, by slow growth in real disposable income in 1985.

United States

We expect the U.S. growth rate to be little different from Canada's. This would produce little change in unemployment, continued control of inflation and possibly a modest decline in the international value of the dollar. The issues for 1985 are the federal budgetary deficit and the deficit in the United States' balance of trade. There may be cause for optimism on the prospects for action to reduce the federal deficit, because of the high costs of failing to do so. The U.S. trade deficit is being exacerbated by what is perceived to be an overvalued dollar. There is some reason to believe that concern over the latter and a diminished concern over inflation will have significant influence upon monetary policy in 1985.

The World

Developments in North America contain good and bad news for the rest of the world. The good news is the respite in interest rates and possible decline of the U.S. dollar. The bad news is that slow growth in the U.S. economy, the world's single most important market, means generally slower growth in exports to the U.S.

President Grant L. Reuber during a visit to one of the Bank's three MasterCard authorization centres. This Toronto facility handles up to 25,000 authorizations daily for purchases by the 1.5 million cardholders in Domestic Banking's Central Region.

1984 may be seen as a year of historic significance in the long life of the Bank. Completion of the Harris acquisition was a major milestone. The Domestic Development Program, realigning our retail and commercial banking business, was concluded. A major improvement occurred in our loan loss experience as a result of the improving economy and better internal control. The capacity of the Bank in terms of capital, technology and people was further reinforced. As a result, the Bank today is not only the second largest in Canada, and the sixth largest in North America, it is substantially stronger than ever before.

The Bank's reported net earnings in 1984 were $283.4 million, only slightly higher than in 1983. This outcome mainly reflected three factors: the slow growth in Canada in the demand for bank credit, the inherent cost

of the strategic investments made in the Bank's future and the impact on current earnings of the five-year averaging formula used to account for loan losses. If our actual loan loss experience is substituted for the provision for loan losses based on the five-year averaging formula, in order to gain a clearer impression of *current* performance, the Bank's earnings in 1984 were $102 million higher than in 1983. This was a major improvement and represents a significant turnaround from the difficult preceding few years.

A major factor accounting for this turnaround was the reduction in our actual loan losses by $186 million from $551 million in 1983 to $365 million this year. Further improvement is expected in 1985.

During the year, the Inspector General of Banks indicated that he intends to specify minimum levels of provisions—generally between 10% and 15% of claims—for risks in some 32 countries. The Bank has already made substantial provisions, aggregating 8.4%, for public and private sector risks in those countries. No difficulties are foreseen in meeting the Inspector General's objective within the two-year time period specified.

Net interest income in 1984 was $45 million higher than a year ago. The increase in average assets, augmented by the acquisition of Harris Bankcorp, was the main reason for the increase, which was offset in part by a slight decrease in interest spreads. Non-interest income increased by $88 million or 21% to $499 million in 1984. Non-interest expenses rose $135 million or 11% from 1983. Approximately one-third of the increase in non-interest revenue and one-half of the increase in non-interest expense is accounted for by the inclusion of Harris results.

Increase in Total Assets

Total assets rose 21% during the year to $76.5 billion, approximately $10 billion of which represents Harris assets. Loans amounted to $47.9 billion, up over $6 billion, largely because of Harris. The modest increase in loan growth reflected the slow growth in loan demand in Canada, as well as the priority given to portfolio control and improving lending performance and loan administration.

The impact of acquiring Harris on the future of the Bank far transcends its impact on our 1984 results. We are unique in having complete operating capability in both Canada and the U.S. Our presence in the U.S., which had

been concentrated mainly in the east and the west, has been extended across the continent. We have gained a highly capable management team with first-hand knowledge and experience of the U.S. market. The size and characteristics of the two institutions reinforce their effectiveness in both the U.S. and Canada as well as elsewhere.

The realignment of our traditional branch system in Canada to reflect its two prime markets—personal and commercial—began two years ago and was completed last August. This has been a major task successfully carried out thanks largely to the skilled, dedicated work of our staff. This concludes an evolutionary process begun 10 years ago. The Bank now has five operating units each with its own mandate. These mandates for the first time provide a concentrated and specialized focus on the major banking markets in North America.

Outside of North America, the focus of Corporate and Government Banking and Treasury activities is primarily on our major markets and principal financial centres. In each area, the Bank is building up staff infrastructure and banking relationships.

The touchstone of success in every part of the Bank is our ability to serve customer needs. To this end, renewed emphasis is being placed upon developing the skills and products required by particular markets, on developing closer banking relations in particular market segments, on a strong commitment to customer service and tailoring our services to suit the special needs of customers. In addition, our marketing and customer-related activities are being decentralized in order to maintain sensitivity to the marketplace and proximity to our customers and their needs.

Internal Control

The increasing size and complexity of the Bank, combined with the risks of the international marketplace and concerns by regulators and others about the continuing soundness and safety of the financial system, have reinforced the emphasis within the Bank on internal control, risk management, the audit process, liquidity and capital adequacy. Good internal control begins with human resource management, information systems, independent monitoring systems, clean organizational lines, well-documented policies, specific delegations of authority and homogeneous job content. Above all, it

depends on accountability—a commitment to the discipline of personal accountability for the exercise of authority. We have made good progress in this aspect of the Bank's operations. This has not been without short-run costs. This cost is an important investment in our future competitive ability. Good internal control will be a strong positive factor as we face the most competitive environment any of us have experienced.

In addition to filling out, streamlining and focusing our organizational structure, as well as strengthening internal controls and operations, the Bank during 1984 added materially to its resource base of capital, technology and people.

On October 31, 1984 the Bank's ratio of capital and reserves (excluding reservations for losses on loans) to total assets was 3.85%, compared to 3.78% a year earlier. (Calculated on a U.S. basis our ratio was 5.56% compared to 4.78% a year earlier.) Today our current capital ratio is higher than at any year end in the past decade, notwithstanding the acquisition of the Harris Bank which added $10.5 billion in assets. This improvement was due to the public sale of $275 million in preferred stock; $128 million of common stock through our shareholder dividend reinvestment, stock dividend and share purchase plans; and $155 million in retained earnings and appropriations for contingencies. No less important, the Bank today has the highest level of liquidity in recent memory—enough to support a very large increase in loans without impairing our capital ratios. In short, the Bank is in good order financially.

Progress in Technology

The Bank's technological base—long a major priority—has continued to grow in size and potency. During the year, major steps have been implemented to strengthen the Bank's competitive position. These include improvements in our international transaction processing systems, in our accounting and management information systems, and in the scope and accessibility of personal banking services. Customers, both personal and commercial, have been provided with increased access to their accounts and our commercial cash management services have been enhanced.

Four overriding themes continue to dominate these developments: the central role of access to timely and relatively inexpensive information; the

critical importance of automation to enlarging the range of services available to the customer; the importance of developing integrated and efficient systems linked to a common information base; and the need for a versatile technical infrastructure that permits ready adaptation to changing personal and commercial banking needs. This latter theme is well illustrated by our recent improvement to the on-line banking system which not only provides customers with direct access to more accounts but will also permit significant extensions of this service through network-sharing and other developments that will evolve in the future.

Staff Development

In October 1984, the Bank's complement was 33,598–29,360 if Harris is excluded. Little or no change in complement is expected in 1985. The emphasis is on upgrading the skills of our personnel. During 1984, the Bank provided 54,396 man-days of training–over 50% more than in 1983.

This emphasis on training reflects the need to shift the mix of our personnel towards higher skilled, service-oriented, revenue-producing activities and away from costly manual functions that are gradually being taken over by automation. Efforts are being made to test and broaden the experience of our supervisory personnel to provide stronger management today and ensure a secure succession for tomorrow. To this end a series of changes in job responsibility were made in October, affecting 20% of our executive officers. The management of the Bank has improved at every level and is stronger than it has been for some time.

The Bank today is in excellent shape, better equipped than ever to take advantage of the opportunities ahead. We expect 1985 to be a year of consolidation and improving performance as the changes recently made take root and mature. The challenge is to capitalize in the marketplace on our strength.

G.L. Reuber
President and Chief Operating Officer

Business Profile

The merging on September 4 of Harris Bankcorp, Inc. with a wholly-owned subsidiary of Bank of Montreal strengthened our position as an important North American institution with significant operations in the world's major financial centres. Broadly speaking, about 55% of the Bank's business is in Canada, more than one-fifth in the United States, and more than one-fifth in the rest of the world combined.

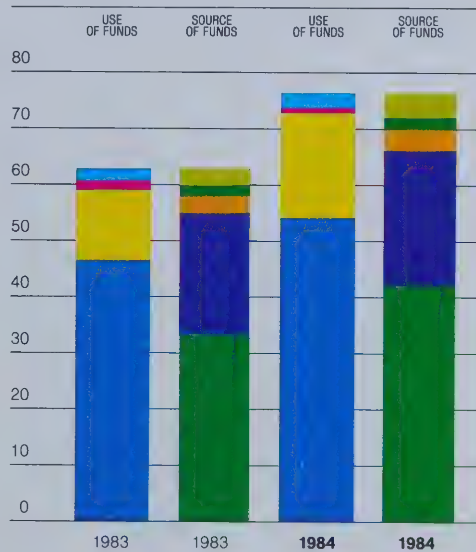
Bank of Montreal comprises five main operating groups. Corporate and Government Banking serves large national and multinational corporations, banks and other financial institutions, governments and government-connected entities in Canada and elsewhere. Canadian Commercial Banking provides a broad range of financial services to independent, mid-market and agri-business customers in Canada. Domestic Banking, through 1,475 customer service points, serves the personal banking needs of individual Canadian customers and, in addition, manages the first-line operations processing function serving all banking groups in Canada. Treasury Group conducts the Bank's activities in domestic and international money, foreign exchange, and securities markets, administers the Bank's liquidity portfolio and manages its capital funding. The Operations and Systems Group is responsible for systems design and development, for operation of the Bank's worldwide communications system and its central data processing facilities.

Harris Bankcorp is a holding company which owns all of the shares of Chicago-based Harris Trust and Savings Bank and seven other banks based in Chicago area communities. Harris operates a diversified banking business, largely oriented to the United States, with significant commercial and personal banking, trust and treasury operations. Total assets at year end were $10.5 billion.

Year-end consolidated assets of Bank of Montreal totalled $76.5 billion, of which credit operations accounted for $54.7 billion, or 71.5% of the total. Commercial banking customers accounted for $43.2 billion, including bankers' acceptances. Advances to personal banking customers amounted to $11.5 billion, including $5.6 billion of residential mortgages. Harris Bankcorp contributed to these totals $6.1 billion in commercial credit and $1.0 billion of advances.

Treasury Group manages a liquidity portfolio which amounted to $15.8 billion at October 31, 1984, as well as a small investment portfolio. Harris Bankcorp accounted for a further $2.5 billion of liquid assets, making $18.3 billion in all.

Business Profile
As at October 31, 1984
($ in billions)



$ in millions

USE OF FUNDS	1983	**1984**
Credit Operations	$46,650	**$54,740**
Liquid Assets	12,948	**18,272**
Investments	1,774	**638**
Other Assets	1,822	**2,841**
Total Use of Funds	$63,194	**$76,491**

SOURCE OF FUNDS		
Personal Deposits	$22,132	**$24,648**
Non-Personal Deposits	33,188	**42,023**
Acceptances	3,065	**3,612**
Other Liabilities	1,693	**2,198**
Capital Funds	3,116	**4,010**
Total Source of Funds	$63,194	**$76,491**

Some 75.5% of the Bank's assets represent North American risk. The relative decrease in Canadian assets to 54.2% of total assets was due almost entirely to the acquisition of Harris, with its preponderance of U.S.-based assets. Canadian activity was essentially unchanged, reflecting sluggish growth in loan demand for most of the year. Assets which represent U.S. risk increased to 21.3% of total Bank assets, reflecting both the Harris merger and more buoyant loan demand.

The largest percentage of Bank funds employed outside North America is in Western Europe, which accounted for 9.1%, and in Asia and the Pacific Basin, which accounted for 8.1%. Both of these geographic areas represent important markets to the Bank, and will continue to do so as a result of their economic importance and general political stability.

Assets in Latin America declined to 6.8% of the Bank's total. Borrowers in this region continue to face liquidity problems, but debtors and creditors are working towards their resolution. There is a general recognition that any attempt to curtail funding abruptly to these countries would cause massive economic dislocation both to the debtor countries and to their trading partners.

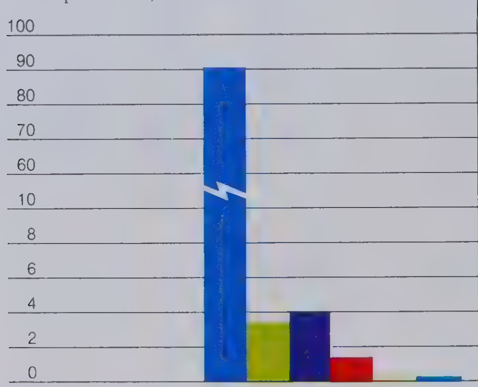
The proportion of Bank assets in other areas—Eastern Europe, the Middle East and Africa—represented one-half of 1% of the total.

Deposits, which aggregate $66.7 billion, provide 87.2% of the funding which supports the Bank's activities (acceptances, other liabilities and capital funds account for the remainder). Personal deposits account for $24.6 billion, or 37% of total deposits. Commercial and government deposits in Canada, the U.S. and elsewhere account for $42.1 billion (63%). The Bank's funding activities are managed so that over-dependence on any one financial market or group of depositors is avoided.

Distribution of Assets

By Economic Classification

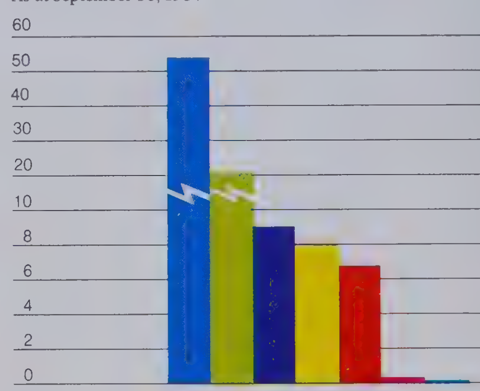
% of Total Assets
As at September 30, 1984



Industrialized Countries		90.8%
Developing Countries		
	Oil Exporters	3.4
	Major Exporters of Manufactured Goods (Medium Income)	4.0
	Other Medium Income	1.5
	Low Income	0.1
Centrally Planned Economies		0.2
Total Assets		100.0%

By Location of Ultimate Risk

% of Total Assets
As at September 30, 1984



Canada	54.2%
United States	21.3
Western Europe	9.1
Asia, Oceania and Australasia	8.1
Latin America and Caribbean	6.8
Eastern Europe	0.3
Middle East and Africa	0.2
Total Assets	100.0%

Personal Banking

In 1984, better customer service was the major goal of the Domestic Banking Group. This was manifest in the expanded accessibility of customer services, the broadened scope of personal banking services, and the heightened focus on personal banking. In recent years, retail banking has changed as fast or faster than other aspects of banking. Bank of Montreal's advantage in systems development and the opportunities for specialization arising from the Domestic Development Program have placed the Bank in a very strong competitive position.

M.W. Barrett
Executive Vice-President and Group Executive

Domestic Development Program

The Domestic Development Program resulted in the reorganization of branches to permit greater emphasis upon personal banking service. Other functions previously performed in the branches were concentrated in strategically-located Administration Centres, Personal Lending Centres and Commercial Banking Units.

This specialization has enabled the Bank to increase overall efficiency while strengthening all-important human relationships with our customers. Branch personnel are concentrating on serving customers, leaving the "back-office" functions to experienced operations personnel in Administration Centres.

In over one hundred Personal Lending Centres across the country, each serving a number of branches, the support of skilled personnel enables branches to provide quicker loan service to customers.

Specialization also contributes to better control of loan account delinquencies. Lending personnel can be more sensitive to the development of trouble signs and needs of borrowers experiencing difficulty. The objective is to provide more professional portfolio management while helping those customers who need special assistance to manage their finances better.

Better customer access is critical to effective marketing of personal banking services. The number of personal banking service points was expanded to 1,475 at year-end and additional locations will be added in 1985. Longer and more convenient hours, Saturday openings and carefully selected locations for new service facilities provide consumers with better access to Bank products and services. For example, some 350 branches are open on Saturday—more than any other Canadian bank. Reduction of customer waiting time was the primary motivation for the expansion of the Quick Cash and Quick Deposit services, which accommodate those customers with simple withdrawal or deposit transactions. Before the end of the decade, a self-service area will be an integral part of most urban branches.

Customer Access to Automated Banking

Customers have now widely accepted the convenience offered by automated banking machines (ABMs). During the year, 118 Instabanks were installed in Montreal and 24 in Ottawa/Hull. The expansion of this on-line, real-time network will continue in 1985. Instabank transactions recorded a 64% increase over the previous year. The expanding volume of simple transactions being processed automatically allows branch personnel to concentrate on customers who require personal service.

As a result of the introduction in 1984 of a new service, the customer-activated Personal Money Mobilizer, customers may now have access to deposits, withdrawals, funds transfer or balance reporting, through either their Multi-Branch Banking (MBB) Card or their MasterCard, to as many as ten accounts, chequing or savings, at any one or more of the branches of the Bank in Canada. In 1985, customers will also be able to draw cash from the banking machines of the CIRRUS network throughout the United States.

The utility of automated banking machines can be enhanced through arrangements for sharing the machines with other financial institutions. Customer benefits are apparent from the larger number of locations from which certain services can be accessed.

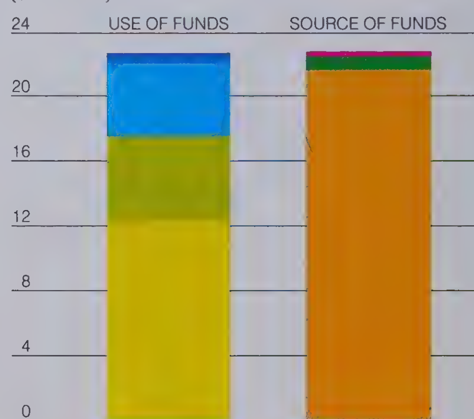
Sharing of automated banking machines in the United States began some years ago and progressed rapidly in an environment of restricted state and interstate branching. Sharing in Canada has been slower to evolve, although the last year has witnessed a number of such announcements involving all types of financial institutions. Last September, Bank of Montreal announced its agreement to join the CIRRUS network in the United States, which will provide our customers with cash withdrawal facilities at nearly 7,000 machines in 40 states by the summer of 1985. Customers of participating U.S. banks will have similar access to Bank of Montreal's Instabank machines. Bank of Montreal also intends to participate in the Canadian evolution of shared access to certain services provided through automated banking machines.

It is widely recognized that such shared distribution systems are the first step toward the implementation of full electronic funds transfer at the retail point of sale. Further convenience for consumers could come from the ability to pay for goods purchased by instantaneous transfer of funds from the account of the purchaser to the account of the merchant, without the need for cash or for cheque verification procedures.

Two years ago, Bank of Montreal initiated a series of major projects to ensure that the architecture of our systems would be positioned to meet the variety of complex requirements called for in an environment of ABM sharing and electronic funds transfer at point of sale. The most important of these projects, the Personal Money Mobilizer, is now operational and is one example of the versatility of the new systems architecture.

Another project, the installation of the switch-technology to permit connections between the Bank's systems and those of commercial customers and other financial institutions, will be in operation by mid-1985. The completion of this project, combined with the sophisticated architecture already in place, positions the Bank to offer an exciting array of new services to personal, commercial and financial institution customers.

Personal Banking (including Bank of Montreal Mortgage Corporation)
As at October 31, 1984
($ in billions)



USE OF FUNDS	$ in millions
Loans:	
Consumer Credit	$ 4,920
Residential Mortgages	5,224
Other	444
Intrabank*	12,222
Total Use of Funds	$22,810

SOURCE OF FUNDS	$ in millions
Deposits:	
Demand	$ 764
Term & Notice	21,823
Other Liabilities	223
Total Source of Funds	$22,810

*The difference between a unit's Source and Use of Funds is supplied to or received from the other banking units.

The Bank of Montreal celebrated the 1984 bicentennial of the Maritime province of New Brunswick with the first year of operation of the Bank of Montreal Building, Fredericton's tallest. Designed to serve the different markets identified by the Bank's Domestic Development Program, it houses a Personal Loans Centre and Personal Banking Branch, with conveniences such as a children's play area. Also on the premises, serving Fredericton and the surrounding St. John River Valley, are a Commercial Banking Unit and an Adcon processing centre.

The first application of these technological capabilities to our U.S.-based operations has also been achieved. Terminals connected on-line to our Canadian automated banking system are operational, handling North-South clearings in both U.S. and Canadian dollars. The dual-currency processing capability of our domestic system is strategically important in light of the Bank's expanded presence in the U.S.

InfoService was extended nationwide in 1984. Customers anywhere in Canada can telephone locally or toll-free or mail a form, available at all branches, to enquire about specific bank services or get quick resolution to a banking problem. In its first full year of operation, InfoService assisted more than 200,000 callers.

A cross-section of the Bank's customers is regularly asked to assess branch service and premises. These periodic snapshots are invaluable in identifying ways in which our service to customers can be improved.

Personal Lending

With the continued modest recovery in the economy, especially during the first half of 1984, there was a moderate increase in consumer spending although consumers showed a reluctance to borrow. As a result of weak loan demand, competition among lenders for good quality personal loans was intense.

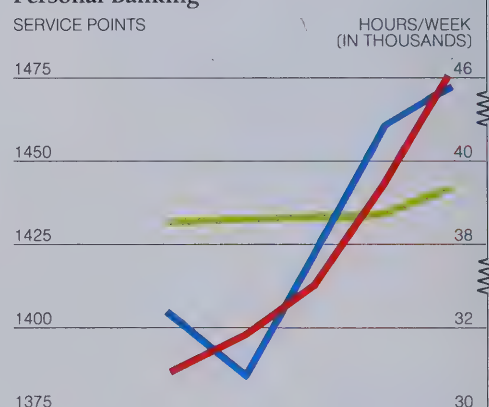
The Domestic Banking Group's loan portfolio totalled $5.4 billion, or 10% of the Bank's total credit operations, at year end.

The Personal Line of Credit, introduced in mid-1983 and given strong marketing support during 1984, has been well received by customers. It enables qualified customers to take advantage of a revolving credit line at preferential interest rates; this saves time, is more convenient and provides flexibility in managing personal finances.

By year end, the previously soft instalment loan market had begun to recover, supported in part by a strong marketing campaign.

To maintain the Bank's ability to service personal lending customers, improvements to training programs were introduced during the year for both new staff and seasoned lending officers. Such programs continue to be an essential element in our approach to the market.

Personal Banking



	Oct 31 1983	Jan 31 1984	Apr 30 1984	Jul 31 1984	Oct 31 1984
Banking Service Points	1387	1408	1412	1443	1475
Average Banking Hours					
for all branches/week (in thousands)	38.4	38.5	38.6	38.8	39.3
for all ABMs/week (in thousands)	32.8	30.7	37.6	42.7	45.8

Service point: either a branch or an automated banking machine location open outside regular banking hours

Personal Deposits

In the face of strong competition from other banks as well as trust companies, credit unions and investment firms, the Bank maintained its market share of personal deposits. Total deposits were $18.1 billion, or 27% of all the Bank's deposits, at year-end. Remaining most popular with Bank customers was the non-chequable True Savings Account. Daily interest accounts are the fastest growing category.

Major marketing campaigns were successful in attracting new business. Seniors were offered membership in the FirstBank Senior Plan, which provides a full range of banking services on attractive terms. The FirstBank FullService package, which provides a wide range of services for one low monthly fee, was promoted to frequent users of banking services. Customers whose banking requirements are more extensive and complex than average are invited to utilize the facilities at our new Private Banking Centres. These Private Banking Centres are now operational in Toronto and Ottawa, with facilities in additional cities to be opened during 1985.

Bank of Montreal also introduced a new Registered Retirement Savings Plan option. The new Super Daily Interest RRSP option offers daily interest, monthly compounding and a higher rate of interest whenever the customer's balance exceeds $5,000.

Bank of Montreal Mortgage Corporation

Virtually all residential, commercial and agricultural mortgages arranged by the Bank are owned and funded by Bank of Montreal Mortgage Corporation (BMMC), a wholly-owned subsidiary. Approximately 92% of BMMC's mortgage assets relate to residential properties.

In 1984 BMMC's assets increased by 35.2% to $7.4 billion. This produced net income of $31.1 million for the year, down substantially from $43.9 million in 1983, reflecting narrower spreads as a result of early pre-payment of high-yielding assets.

In September, BMMC purchased from the Bank a portfolio of collateral mortgage loans aggregating $1.1 billion. Based on current interest spreads, the portfolio—which yields approximately 14% with an average term of 19 months—will provide BMMC with increased profitability.

Competition for new business was heavy during the year as borrower demand, while stronger than in 1983, did not reach anticipated levels. In response, the Bank took the initiative by increasing the attractiveness of its mortgages. In February, the Bank introduced its "10+10" program, which was the first to offer new *and* existing customers the additional right to accelerate mortgage repayment by increasing monthly payments. The saving to borrowers can be impressive; on a $50,000, 12% mortgage the amortization period would be reduced from 25 years to 9 years with an interest saving of nearly $65,000, assuming the monthly payment is increased by 10% each year. The program received an excellent response and was quickly followed by the introduction of similar products by other mortgage lenders.

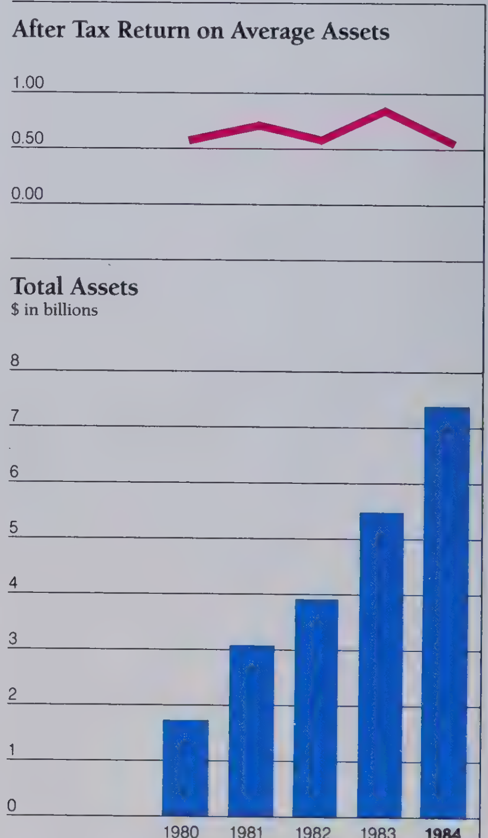
Further product developments included a low-cost life insurance option and, early in this fiscal year, a Mortgage Rate Protection Plan and a new variable rate mortgage.

Customer service was improved through development of new training and product guides for customer service staff, use of simplified application forms and changes to operating procedures. Automated management information was also improved during the year, building on existing transaction and reporting systems.

BMMC's provision for loan losses in 1984 increased to 0.09% of average assets, compared to 0.02% for 1983, largely due to deteriorating property values in Western Canada. However, the number of loans in arrears by 90 days or more decreased significantly as new collection systems were installed.

The primary source of funding for BMMC is its guaranteed investment certificate (GIC), offered to depositors through Bank of Montreal branches. GICs feature terms of one to five years and a choice of annual, semi-annual and, since 1983, monthly interest payments. In 1984, GIC outstandings increased by 22.7% to $3.3 billion at year end. BMMC also issues short and medium term notes to institutional investors, and it places medium-term debt in Canadian and Eurodollar capital markets. All debt obligations of BMMC are guaranteed by the Bank.

BMMC supplies mortgages to First Canadian Mortgage Fund, a mutual fund administered by Bank of Montreal, comprising $70 million in residential first mortgages. More than 9,000 people currently hold units of the fund, which is eligible as an RRSP investment for individuals.



	1980	1981	1982	1983	**1984**
After-tax return on average assets	0.58%	0.70%	0.61%	0.87%	**0.52%**
Total assets at year end	1.74	3.09	3.95	5.47	**7.40**

Operations and Systems Group

G.W. Hopkins
Executive Vice-President

The core of modern banking is information. It is essential to internal control and is a key competitive tool in increasing profitability and gaining market share. Customers require timely data on account balances, the status of individual transactions, interest rates and Bank products to direct their financial affairs effectively. The Bank requires a comprehensive management information system to control its own operations, serve customers effectively and monitor implementation of strategic plans. Regulatory authorities in Canada and elsewhere require a variety of reports to manage the economy and financial markets.

The Operations and Systems Group provides the advanced computer systems to support the current needs of those users of information and to establish automation strategies to accommodate further growth and changes in the environments in which the Bank operates.

The transaction processing systems which support day-to-day operations are the fundamental underpinnings of the Bank's information management strategies. Continued investment in these systems builds on the capabilities installed over the past decade, reflecting advances in technology and change in the needs of information users.

Long-term Planning

The Bank's longer term goal is to integrate data systems to meet increasing information needs while maintaining transaction processing efficiency. The Bank is approaching this objective by:

- developing new and advanced transaction processing systems, building on the hardware and software already in place;
- introducing such systems to operating locations worldwide;
- providing for their interconnection to facilitate new and enhanced product lines;
- completing direct linkages between transaction processing and financial reporting systems;
- establishing and maintaining global "data bases" derived from the transaction processing systems;
- improving transaction and account status reports to customers and Bank managers;
- maintaining effective controls over access to information, to ensure that customer privacy is respected.

The Group's activities in 1984 were consistent with the strategies and detailed plans mentioned in last year's annual report. Some revisions were made to timetables due to changes in priorities and a determination of better ways of doing things. For example, automation of the Chicago branch and the new Global Limits System were advanced to 1984 and greater priority was given to systems development in Tokyo.

Accomplishments in 1984

In 1984, the major systems emphasis for Treasury was on transaction processing systems in North America. General ledger, foreign exchange and money market modules were successfully introduced, and enhanced commercial loan facilities were developed for 1985 installation.

The provision of full transaction processing support in Tokyo and Frankfurt, its potential expansion to Seoul and significant improvements to the existing automated facilities in New York and London will be provided in 1985. Chicago branch, opened in September, commenced operation with the full range of currently available automated systems.

The Bank will be installing new securities processing systems in Canada and New York. This will bring considerable workload savings and expand the scope for new customer services.

The global wireroom automation program was not completed as planned in 1984 due to the replacement of an outside contractor. Completion is now scheduled for 1985 in parallel with extension of the Bank's SWIFT network to our Far Eastern units.

Significant emphasis was placed on improving trading operations. A new automated Global Limits System was installed to maximize the effectiveness of foreign exchange and money market controls. A new data and communications system for dealers, including up-to-the-minute information on interest and exchange rates and on the Bank's dealing position, was put in place in New York in 1984 and will be introduced at other Treasury locations around the world in 1985.

Personal Banking Improvements

Systems and computer facilities were re-designed to accommodate the drive for more convenience in customer service. Bilingual automated banking machines are now available coast to coast, and customers can access up to ten accounts at any of the Bank's Canadian branches with just one card. In 1985 the Bank will offer customers the added convenience of using the MBB card to get cash from banking machines of the CIRRUS network in the United States. Other systems enhancements are positioning the Bank to pursue electronic banking related opportunities, beginning with credit card authorizations at the point of sale in early 1985.

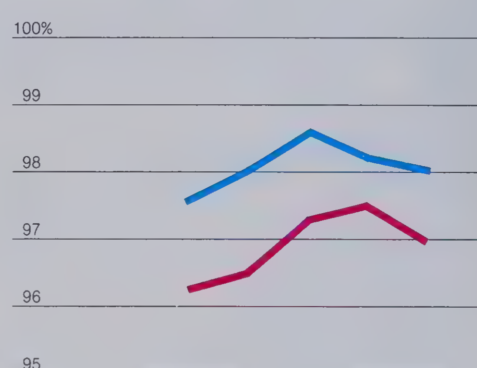
To enable our staff to concentrate on customer service, branches are being relieved of the task of filing and dispatching cheques and statements to customers. Development and installation of new systems to enable these activities to be carried out at the Bank's regional data centres began in 1984 and will be completed in early 1985.

An automated collection system was installed to improve the collection of past due credit card payments.

The Bank's communications network was reconfigured and personal computers installed throughout Canadian Commercial Banking to speed up processing of credit applications and support enhancements to internal loan administration reports.

For Corporate and Government Banking, the DirectLine facility (through which corporate customers have direct terminal access to the Bank's domestic on-line banking system) was updated to take advantage of improved technology.

Operations and Systems Availability of On-line Banking at Customer Service Points



Percentage of Time Available	1983	Jan. 31 1984	Apr. 30 1984	July 31 1984	Oct. 31 1984
of on-line systems at customer service point	97.6	98.0	98.6	98.2	98.0
of ABMs at customer service point	96.3	96.5	97.3	97.5	97.0

The result was a significant reduction in both hardware and data communication costs, and a consequent doubling of the customer base. Other enhancements included the capability for the DirectLine customer to build his own international payment instructions. In 1985, he will be able to access, via DirectLine, the Bank's foreign exchange and money market systems.

The Direct Customer Transmission Service was introduced in 1984 to allow customers to transmit direct deposit items, such as payroll, directly from their own computer systems to the Bank's.

Expanded Access to Information

Provision of information directly from Domestic and Treasury transaction systems to Corporate and Government Banking account managers will be stressed in 1985. This will result in more specific information on individual Bank products, and it will permit more effective management of customer relations because it will give account managers a more comprehensive view of the customer's total relationship with the Bank. Account managers will be provided with consolidated information on the business these customers conduct with the Bank around the globe.

In February, Bank of Montreal became the first Canadian multinational organization to implement an integrated digital network using a private satellite business service. This satellite network links the Bank's London office with North America and is divided into a number of voice and data circuits. The voice circuits connect the Bank's London telephone system to its North American voice network while the data circuits permit the Bank's software development groups in London and Toronto to access remote computers and to transfer files between these locations. This system will be expanded to provide additional voice and data applications over the upcoming years.

During 1984, Bank of Montreal and Harris Bank undertook a joint review of computer operations and systems development activities and plans. Opportunities identified to date include a shared money market systems enhancement, a back-up arrangement for Harris Bank cheque-processing and savings from volume purchasing of computing hardware.

The technological rate of change affecting the Bank continues to be extremely high. New hardware and software are being developed continually, while customers have increasing expectations of the type and quality of service they receive, wherever they are located. The result is highly competitive markets for financial services, markets whose boundaries are ever expanding.

The key to success for the Bank is the effective development and use of information for internal and client use. The Bank has an established technological base and is well positioned to increase its share of technology-sensitive business activity.

Treasury Group

The Treasury Group provides Bank customers with access to world financial markets through a network of trading rooms in operation around the clock. It is through this network that the Bank manages its own asset and liability positions with emphasis on funding, liquidity, interest rate term and foreign currency exposures. Transactions at Treasury centres around the world average more than $10 billion a day.

G.E. Neal
Executive Vice-President and Treasurer

Customers and Bank traders are demanding and receiving improved financial management information faster in order to manage more effectively the risks inherent in a market environment characterized by volatile and often unpredictable interest rate and foreign exchange movements. Utilizing proven technology, an integrated automation system for core operations has been implemented in the principal Treasury functions. Telecommunications links have also been strengthened to enhance timely information and payment processing.

Year End Trading Results

In 1984, the trading units within Treasury Group had a mixed year, with some performing above expectations and others below expectations. Overall, results were below those of last year.

The domestic money market units had an excellent year, increasing their market penetration and profitability above last year's very good results.

The international money market units had a roller-coaster year which saw their profitability slip below last year's levels. Increased market penetration, expanding the Bank's U.S. dollar funding base, represented good progress in pursuit of an important corporate objective.

While the Bank's foreign exchange revenues were up slightly over last year's, the foreign exchange unit's profit performance was below expectations. Strong performance by the commercial foreign exchange traders in the U.S., Europe and Canada was offset by poor performance by most interbank trading units.

The domestic bond department had a poor year largely due to trading performance although account coverage and government bond underwriting continued to show a positive trend.

Delivering products which allow customers to manage interest rate and foreign exchange exposure better is a priority goal of the Group. In this regard, Bank of Montreal maintained its position in 1984 as the leading Canadian participant in interest rate and currency swaps.

Financial Futures Markets

The Bank is also an active participant in financial futures. In 1984, the Bank established Bank of Montreal Futures Inc. and purchased three seats on the newly established Toronto Futures Exchange, of which it is a founder and the first bank to trade directly on the Exchange. The Bank trades sterling on the London Financial Futures Exchange as well as U.S. and Canadian securities and currency futures in Chicago.

In London, trading activities in Eurodollar floating rate notes has commenced and will be expanded to other securities in 1985.

Servicing financial institutions is a major priority of Treasury Group. A large component of this activity is securities services. Throughout the world, the Bank provides buyers and sellers of securities with receipt, delivery, transfer, settlement, payment and safekeeping services.

DirectLine customer terminals for corporate cash and securities management provide Bank clients immediate and secure access to the Bank's automated financial data bank and facilitate funds transfers. The information system provides customers with money market and foreign exchange rates, and details of their loans, deposits and current accounts, outstanding foreign exchange transactions and worldwide securities holdings. Sales growth of DirectLine increased by 50% during 1984 in North America and the United Kingdom. Here, Robert E. Burton (centre) and Sheila M. Rede of the Bank's London, England, office discuss DirectLine services with Investment Accountant William J. Rogerson at the Standard Life Assurance Company in Edinburgh.

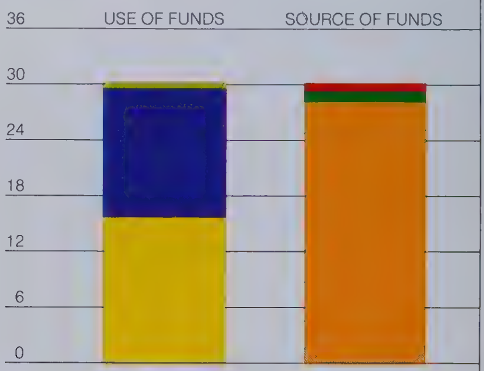
Transactions totalling in excess of $5 billion daily are handled by the Bank's Securities Service Centres around the world. Institutional investors in the U.K. and Canada are taking advantage of FirstBank Securities Services, the Bank's automated U.S. stock exchange transaction reporting and confirmation facility which was enhanced in 1984 by the addition of reporting on settled and failed transactions.

The capital funding unit of Treasury Group was active during the year. Two capital funding issues were completed which enhanced the Bank's strong capital base. Perpetual preferred shares were successfully reintroduced to Canada after an absence of 100 years through the public sale of a $275 million preferred share issue.

A U.S. $250 million issue of subordinated debentures was successfully marketed in Europe to augment the Bank's primary capital for U.S. purposes. In addition, £100 million of term funding was raised to support our growing business in the United Kingdom.

The worldwide Treasury staff of the Bank now numbers over 2,000 people with different backgrounds and skills. Training and development is given top priority within the Group. Formal Treasury education modules augment planned on-the-job training programs to develop specialized skills and direct career paths. In addition, special programs on Treasury products and services are presented by Treasury staff to account managers in other areas of the Bank in order to provide timely and knowledgeable service to customers in a rapidly changing and complex financial marketplace.

Treasury
As at October 31, 1984
($ in billions)



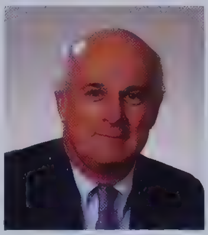
USE OF FUNDS	$ in millions
Liquid Assets	$15,769
Investments	554
Intrabank*	13,751
Total Use of Funds	$30,074

SOURCE OF FUNDS	$ in millions
Personal Deposits	$ 1,008
Non-Personal Deposits	28,001
Capital Funds	1,065
Total Source of Funds	$30,074

*The difference between a unit's Source and Use of Funds is supplied to or received from the other banking units.

Corporate and Government Banking Group

Corporate and Government Banking customers are provided with a full range of credit and non-credit services. The Group manages a diversified credit portfolio of $29.7 billion, representing over half of all Bank lending at the end of fiscal 1984. Just under half of the outstandings ($14.2 billion, or 48%) were to commercial and industrial corporations, principally in North America, $6.3 billion (21%) to banks, governments and government-related entities, $5.7 billion (19%) to natural resource borrowers and $3.5 billion (12%) to the North American real estate industry.



W.B. Bateman
Executive Vice-President and Group Executive

The Corporate and Government Banking Group continued to face a very competitive environment. World economic recovery was most pronounced in the United States; other industrial countries experienced only moderate growth. Many developing countries continued to encounter payment problems. High interest rates, depressed commodity prices and cautious lending policies by major international lenders made it difficult for many developing countries to raise new loans.

While Canada and other industrial countries experienced improved economic conditions, some corporate borrowers continued to have liquidity problems as an aftermath of the global recession. Quality borrowers turned increasingly to non-bank sources of funds: the longer-term debt, equity and swap markets and direct access to the short-term money markets through use of instruments such as commercial paper.

Focus on Selected Markets

Corporate and Government Banking intensified its overall market strategies, based on greater selectivity and a more focused market approach. Rather than attempting to cover all segments of the global marketplace, the Group is concentrating on those industrial and geographic sectors where the Bank has or is developing a competitive advantage in terms of knowledge, technical expertise or particular professional skills. Customers and prospects offering the greatest longer-term business potential are identified and receive particular emphasis.

One example of a target group receiving special attention are the "non-bank financial institutions" such as insurance companies, trust companies and investment trusts in the major worldwide financial markets. The Bank has long had a close relationship with a number of such institutions in Canada and has built up considerable industry expertise over the years. Its advanced electronic data processing systems and technological superiority provide a competitive advantage in this knowledge-intensive field.

Geographically, the Bank is focusing its delivery system on major financial centres, whether for credit or non-credit services. This concentration allows for improved resource allocation, economies of scale and an efficient approach to the marketplace.

Skill-Intensive Services

During 1984, the Bank continued to play a leading role in a wide variety of syndicated financings. It acted as lead manager and agent in raising U.S. $240 million for the Bécancour Quebec Aluminum Smelter. The Bank also led the £200 million North Sea gas financing for Hamilton Oil Great Britain.

Corporate and Government Banking's Corporate Finance team brought together major corporations in merger and acquisition transactions.

Cash management represents a major product area within the general corporate market, one which is growing rapidly in significance. The Bank has a strong position with regard to these important services, particularly in the North American market. Considerable development effort was expended on the cash management product line in the past year. Extensions and improvements to the DirectLine service, DirectCheque and the Money Management Account have particular application in

Canada. Further product line enhancements, including those of an international nature, are in various stages of development.

Like most major financial institutions around the world, the Bank has made loans to borrowers in developing countries. Significant delays in recovering principal and/or overdue interest are likely to occur in a number of cases. The Bank continues to work closely with international credit committees and the borrowers themselves. While we believe most of these loans will ultimately be collectible, reservations have been made against the possibility of non-collection.

Enhancing Management Capabilities

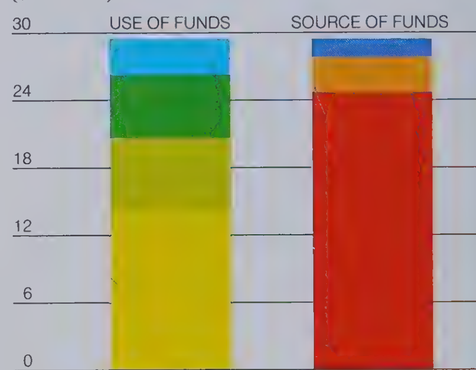
Management development is important for the long-term success of the Group. The blurring of demarcations among financial institutions, the long-term trend towards the internationalization of markets, increasing competition and continuing changes in the various business environments mean that our personnel must be able to master non-traditional skills and subjects quickly and think increasingly in global terms. It is equally important for our managers to acquire the wide range of experience needed to serve today's sophisticated corporate customers.

The Bank must also develop its next generation of leaders. The right people must be given the opportunities to expand their skills and receive recognition for doing so. To this end, a number of important managerial moves were made during 1984, involving the reassignment of a number of the Group's executives.

The Bank is also moving to strengthen its Corporate and Government Banking presence in the expanding economies of Asia. Early in 1985, a Divisional Executive will take up residence in Tokyo. This move will bring a number of distinct benefits: on-the-spot management in a crucial Pacific centre, shorter lines of communication and a more focused marketing activity.

In the United States, the merger with Harris Bankcorp, Inc. is already having a positive impact upon the business of both institutions. Corporate and Government Banking is strongly represented in the Bank's new branch in Chicago.

Corporate & Government Banking
As at October 31, 1984
($ in billions)



USE OF FUNDS	$ in millions
Loans:	
Commercial & Industrial	$14,194
Governments & Banks	6,283
Petroleum	5,697
Real Estate	3,496
Total Use of Funds	$29,670

SOURCE OF FUNDS	$ in millions
Deposits:	
Commercial Demand, Term & Notice	$ 1,731
Acceptances	3,216
Intrabank*	24,723
Total Source of Funds	$29,670

*The difference between a unit's Source and Use of Funds is supplied to or received from the other banking units.

Canadian Commercial Banking Group

D.G. Parker
Executive Vice-President and Group Executive

Canadian Commercial Banking has completed the second year of its existence as a line group. It was created to serve what the industry calls the "mid-market". Under this rubric at Bank of Montreal falls an exceptionally wide spectrum of enterprises ranging from those with annual sales of $100 million to the most modest retail or service business. It embraces professional categories as well as agriculture, one of Canada's most important sectors.

Canadian Commercial Banking Group would be a big bank in its own right. Its more than half a million accounts constitute a high percentage of the Bank's business loans. It has assets and deposits of several billion dollars and a complement of some 4,000 people. The past year saw completion of a national network of 98 branches committed to the commercial market. These branches, called Commercial Banking Units (CBUs), give us a uniquely strong presence in Canada's domestic commercial economy.

Improved Portfolio Management

With a new organization, the CBU gives front-line or market visibility to Canadian Commercial Banking but it is clear that without the requisite infrastructure—the organization, the communications capacity and, above all, the trained people—separate physical premises, however attractive and efficient, will not be enough. The principal goals the Group set for itself last year were improved portfolio management, focused marketing (defining customer groups and their service more precisely) and, finally, better customer service. Our intent is to establish a solid base of customers whom we are able to serve efficiently and constructively, to improve the Group's profit performance, and to increase gradually our share of desirable business.

Because of its breadth and diversity, the mid-market in Canada is not the most simple environment in which to operate. For one thing, it is intensely competitive. A wide variety of financial services is offered by banks, foreign as well as domestic, and by non-banks, among others. When the strategic decision to divide the Domestic Banking Group into personal and commercial banking was taken, we recognized there would be transitional difficulties which would be felt both by our business customers and by our employees. These difficulties will disappear as the new organizational arrangements are consolidated and personnel become familiar with the requirements of their new jobs. The observable evidence of the new arrangements to date is encouraging.

Probably the most substantive gain has been in asset quality and control. The CBU structure, when combined with new credit granting and loan administration procedures, and with improved financial and management information, facilitates more effective loan portfolio management. The relative risk and return from various industry sectors can be measured more accurately, and current exposure to each more readily determined. As a consequence, and with the help of specialist industry teams, lending to each area can be managed with much greater discipline.

Refined Procedures

The Bank's management of its commercial lending activities is being facilitated in a number of other ways. Credit granting and loan administration procedures have been refined. Some 200 credit officers have been transferred to CBUs, bringing them closer to the markets they serve. With improved controls, effective decentralization of decision-making is feasible. More than 90% of credit authorizations are now approved at the CBU level.

Four special units, staffed by senior managers, are working with larger commercial borrowers who are experiencing financial difficulty. To ensure that every reasonable alternative is explored, each definitive step taken concerning troubled accounts is considered by a Special Review Committee of experienced officers. The quality of Canadian Commercial Banking's assets has shown steady improvement with loss experience 34% below 1983.

To sharpen the focus on target commercial markets, further segmentation is under way. Just as computers are in use at all CBUs in credit analysis, the installation of personal computers at all CBUs will be completed by early 1985, giving managers access to the Bank's commercial financing data base and enabling them to play a larger role in developing and implementing plans aimed at their local markets.

New Products

Products have been developed to complement these plans. An all-inclusive fixed-rate commercial loan package covering Operating Loans, Term Loans, Commercial Mortgages and Leasing was introduced with positive results in 1984. Also of benefit to independent business and farmers is the new all-in-one "FirstBank Business Operating Account" which combines daily interest savings, chequing and operating loans (up to $50,000) in one account, with attractive accounting and cash management features. Development of other products is in progress.

While the CBU network was being developed, the Bank's share-of-market was marginally reduced. Some decline in market share is to be expected as portfolio quality continues to improve and as revised loan administration procedures are implemented. However, this is expected to be a short-lived phase, after which we can look forward to satisfying growth in the Bank's commercial asset base and a significantly heightened level of customer service.

Banco de Montreal Investimento S.A.–Montrealbank

Banco de Montreal Investimento S.A.-Montrealbank (BAMI) is a wholly-owned subsidiary, founded in 1965 and acquired by the Bank in 1980. Its headquarters are in Rio de Janeiro with regional offices in eight major Brazilian cities, including São Paulo, the industrial centre of the country. Total assets as of October 31, 1984 were CR 767.6 billion (Cdn. $384.8 million).

BAMI offers a range of credit and non-credit services to Brazilian and multinational companies and government agencies. In keeping with Bank of Montreal's overall international marketing strategy, steps have been taken to identify those entities to which BAMI can bring a particular competitive advantage.

Legislation passed in 1984 provides for institutions such as BAMI to operate in the foreign exchange and trade finance markets, thereby opening additional opportunities for the integration of services between BAMI and Bank of Montreal. A foreign exchange license, for which BAMI has applied, will enable BAMI to expand its commercial customer base in this highly competitive market.

The current focus of activity is on such wholesale services as investment portfolio and pension fund management, mergers and acquisitions, share issues, debenture offerings and merchant banking, while retail operations are being de-emphasized.

The recession in Brazil has produced flat loan demand and fierce competition among lenders. These environmental factors notwithstanding, the profit contribution of Cdn. $5.1 million from BAMI represented an increase over 1983 levels.The restructuring activities which have taken place during the year will provide the foundation for still better performance in the future.

B. Kenneth West, Chairman of Harris Bankcorp , runs the 102-year-old financial institution from his office overlooking LaSalle Street in the heart of Chicago's "Loop." Harris merged with Bank of Montreal in 1984.

The Bank's acquisition of Harris Bankcorp, Inc. of Chicago was completed on September 4 after receipt of approval from Harris' shareholders and U.S. regulatory authorities earlier in the year. This consummated the agreement reached with the Board of Directors of Harris in October 1983 for the acquisition of all outstanding shares, as outlined in last year's annual report.

Harris Bankcorp, Inc. is the parent company of Harris Trust & Savings Bank, a leading financial institution based in Chicago, and of seven other banks located in communities in the Chicago area. A commercial leasing and a futures trading company are also part of Harris' operations in Illinois; in addition, it operates trust companies in Arizona, Florida and New York.

Harris Bankcorp, Inc. had total assets at September 30, 1984 of Cdn.$ 10.5 billion, of which $7.1 billion comprises the credit portfolio. Harris' loans to a wide cross-section of commercial and industrial borrowers amount to $4.3 billion, with no one industry predominating. Term credits to financial institutions and government entities account for $1.8 billion. Personal loans, principally instalment loans and credit card operations, account for approximately $550 million, while some $410 million is in residential mortgages.

Harris' funding came principally from commercial deposits and commercial paper, totalling $6.8 billion, and personal deposits, including term investments and savings accounts, of $ 2.2 billion.

While it has provided a full range of commercial banking, personal banking and trust services to its customers throughout the United States, Harris has, over the years, emphasized areas of specialization largely complementary to Bank of Montreal's services.

Harris' corporate finance consulting services, for example, with their orientation toward the needs of privately-held and medium-size U.S. businesses, fit well with Bank of

CHICAGO, 1871
The Bank of Montreal was the first Canadian bank to establish operations in Chicago, opening an agency in 1861. A founding member of the Chicago Clearing House in 1865, the Bank was closely associated with the development of the fur and grain trades across the Great Lakes. Here, Branch Manager William Richardson surveys the wreckage of the Great Fire of 1871 from temporary premises at 145 Randolph Street.

CHICAGO, 1984
With Illinois now Bank of Montreal's "home state" in the United States, and Chicago an increasingly important centre for Bank business, a Branch was opened in August on South LaSalle Street in the heart of the financial district to provide services of the Treasury and Corporate and Government Banking Groups. The new Branch replaced a representative office.

Montreal's experience in providing advice in international project finance, loan syndication and Canadian mergers and acquisitions. Harris is recognized for its U.S.-based cash management services, while Bank of Montreal is similarly acknowledged in Canada. The aggregation of the two banks' interest rate and currency swap capabilities provides access to an expanded pool of funds. Harris' expertise in foreign exchange futures and other treasury-related services is a welcome addition to the Bank's activities in this area.

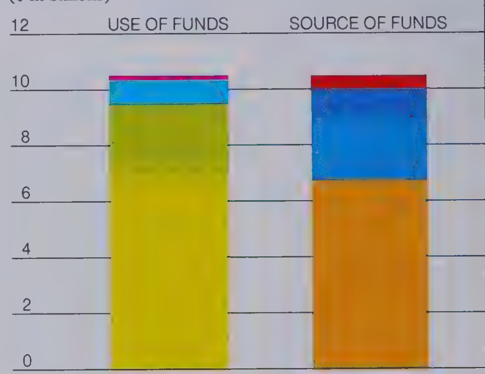
At the same time, Harris and the Bank bring to each other access to different markets. Harris has in the past concentrated on serving individual and commercial customers in and around the Midwest, while the Bank's activities in the U.S. were focused on the east and west coasts. The concurrent establishment of Illinois as the Bank's "home state", establishment of our Chicago branch and retention of offices in both New York and California, combined with the continued activities of Harris, will allow more complete coverage in the U.S.

The most important asset of Harris, however, is its people with their wide range of special skills and experience. Bank of Montreal benefitted most of all by being able to welcome them into our organization.

The Harris merger was a fundamental element of the Bank's global strategy. An expansion of our customer base in a large, dynamic, geographically contiguous market is essential given the opening up of the Canadian market to foreign banks, many of which are American. Canada's traditional trade and investment links with the U.S. make the Chicago area a particularly attractive location for expansion. The Harris connection will provide improved service to Canadian customers with interests in the U.S. while enhancing the Bank's ability to meet competition in its Canadian markets, particularly from subsidiaries of U.S. banks.

Plans include putting Harris on-line to the Bank's automated international infrastructure. The Bank will make available to Harris and its customers a cash management system enabling multinational companies to consolidate within seconds funds throughout the U.S. and Canada, and ultimately anywhere in the world. The larger credit capacity of Bank of Montreal will allow Harris to service the credit requirements of its larger client base without suffering a disadvantage vis-à-vis its larger competitors. For the Bank's Canadian customers, access to a full service banking organization in the United States offers great benefits. The Harris-Bank of Montreal connection comprises the only single banking entity capable of providing this calibre of service on both sides of the border.

Harris Bankcorp, Inc.
As at October 31, 1984
($ in billions)



USE OF FUNDS	$ in millions
Credit Operations	$ 7,068
Liquid Assets	2,503
Investments	84
Other Assets	811
Total Use of Funds	$10,466

SOURCE OF FUNDS	$ in millions
Personal Deposits	$ 2,208
Non-Personal Deposits	6,791
Acceptances	396
Other Liabilities	1,071
Total Source of Funds	$10,466

The union in 1984 of Bank of Montreal and Harris Bank of Chicago will enhance the service capabilities of both institutions. Among Harris' many strengths are its services in trust and non-credit financial services. Here J. Donald Higgins, Harris Vice-President and Account Manager (right), meets with Donald R. Jones, Senior Vice-President and Treasurer of Motorola Inc., on the 325-acre campus of the world electronics leader.

Deputy Chairman William E. Bradford concludes a weekly meeting of Corporate Staff executives in the Bank's historic Montreal Head Office. From left are: Senior Vice-Presidents L. Richard O'Hagan, Public Affairs; Dr. Peter G. Kirkham, Human Resources; Peter A. Manson, Corporate and Legal Affairs; Executive Vice-President John A. Whitney, Chairman, Credit Policy Committee; and Robert B. Wells, Senior Vice-President, Accounting and Control.

Accounting and Control

Over the past decade, the Bank has transformed itself from a geographically based institution to one organized along functional lines, focused on specific markets. This strategic reorientation was a consequence of the changing environment in which the Bank found itself. An alteration of such far-reaching significance, concurrent with vastly increased transactional, reporting and internal control requirements, demanded a fundamental restructuring of our financial reporting and control systems. An integrated system, generating the financial and related information needed to manage the Bank, was accordingly developed over a three-year period, based upon the Bank's transaction processing systems. These watershed changes had to be introduced without impairing the Bank's ability to conduct its affairs.

Until 1982, the accounting, management information and internal control functions were largely the responsibility of the individual line and service components of the Bank. The magnitude of the changes to be made dictated the consolidation of these functions under corporate control and highlighted the need for professional financial management at all levels. The Accounting and Control Division was formed in November, 1982 with Bank-wide responsibility for these functions and a mandate to upgrade not only the quality of the functions but also the professional capacity of the division's staff. Financial management is one of the important core functions in the Bank. It is now a well-defined and rewarding career option for those whose skills and interests lie in this area.

In recent years we have been addressing basic issues of internal control. The process

is neither quick nor easy. It is not uncommon for internal control to be regarded in a negative light, as essentially another constraint. However, in the competitive environment which we face today, and will doubtless face in the years ahead, good internal control is, and will continue to be, a positive feature and one of our most important competitive weapons. We must have the ability to respond quickly to change, to manage our risks, to meet the shifting demands of the market-place, and to re-deploy and focus resources quickly and efficiently.

The Integrated Financial System (IFS) is a "transaction driven" system on which development and partial implementation was completed in 1984. It will be implemented globally in 1985. It encompasses transaction processing, data collection, reconciliation and reporting, both internally and to Canadian and other regulatory authorities. The refinement of "front-end" information and reporting packages will be a continuing process as technology advances and as the Bank's operations evolve, through 1985 and beyond. The operations of Harris Bankcorp, Inc. are being incorporated into the system.

The use in the integrated financial system of "responsibility codes" in place of the branch "transit numbers" for transaction processing and subsequent financial and management information reports represents a profound change. Business activity can now be monitored for each relevant marketing unit or product line rather than by the branch in which a customer's transaction happens to have been booked. The direct linkage between transactions and reporting ensures timely, accurate and comprehensive reporting. Furthermore, the system is flexible: IFS can adjust with relative ease to changes in operations or account management responsibilities.

Implementation of IFS is greatly facilitated by the continuing development of technology and information management systems. While automation is an essential component, it is only the means by which the Bank's operational, internal control and reporting requirements are carried out. Automation is neither an end in itself nor can it compensate for inadequate, deficient or obsolete accounting and financial reporting systems. It is therefore important that systems design not be permitted to lag behind technological development.

In 1985, Bank executives and managers will have access to IFS information by computer terminal rather than only by "hard-copy" reports. In addition to improving timeliness, this will facilitate financial modelling and analysis of strategic alternatives.

In this connection, the Bank's business plan process was redesigned during the year to provide greater emphasis on strategic issues and tactical options. Profitability standards were established for all areas of the Bank. Coordination of plans among line banking units around the world was improved. Regular financial reports to management were redesigned to highlight the major objectives of the business plan and ensure their review against performance on a regular basis.

A review of all accounting policies and financial reporting systems throughout the Bank is being conducted by the newly-established Accounting and Control Division to ensure that they meet corporate standards and regulatory reporting requirements. Accounting policies of Bank of Montreal and Harris Bankcorp, Inc. were reviewed in 1984, as were loan information systems. The process will be extended in 1985 to include customer and product information systems and profitability measures.

Corporate Audit

Safeguarding the interests of the Bank's shareholders, customers and employees requires proper control over the authorization, execution, and recording of transactions, protection of information and the reliability of systems.

The Corporate Audit Department is responsible for evaluating the Bank's internal control systems, for auditing all Bank units and activities and for either performing or over-

seeing internal audit functions of Bank subsidiaries. The department conducts regular audit examinations of all branches, departments and other units of the Bank. It also works closely with the shareholders' auditors in carrying out their examination of the year-end consolidated financial statements.

Management attention is especially concerned with the improvement of auditing methods and standards in keeping with ongoing technological changes in such areas as systems development, the use of computers as an audit tool and foreign exchange and money market dealing. The Chief Auditor's concurrence is required for the implementation of all computer systems as well as introduction of all new Bank policies, to ensure that they embody adequate internal controls.

In 1984 the department was reorganized into three main areas: credit, systems and operations. Revised audit approaches have been developed for domestic branches and for all commercial credit granting units. Increased emphasis has been placed upon identifying risks and upon control standards, rather than solely upon detailed procedures and the processing functions. The format and timing of audit reports (approximately 1,000 each year) have been improved, as has detailed follow-up to ensure that the deficiencies reported are effectively dealt with.

Corporate Security

The Corporate Security Group was created to provide a consistent and dependable backbone for the Bank's domestic and international security program.

Security begins with the need to understand those who seek to defraud the Bank or its customers. While the Bank faces, as it always has, robbery and other traditional crimes, additional attention is being devoted to more sophisticated and difficult security problems. These activities are characterized by high skill levels and careful planning on the part of those seeking to defraud.

Enhancing computer security is another priority. The control of electronic funds transfer systems and the business use of minicomputers are areas where security improvements are being evaluated and made. Training of staff in computer security techniques is a major part of the Bank's training program, and it will grow very rapidly in line with the growth in automation throughout the Bank.

Amongst current security issues is the improvement of protective measures for automated banking machines. These measures, which include matters such as machine location and lighting, as well as improvements in software and other backup support to the machines, are intended to provide better protection for customers using the machines and to reduce fraud.

Another major program affords protection to employees of the Bank whose position exposes them to added risk. Underpinning these activities is an ongoing awareness program to ensure that Bank employees and customers understand the importance of security.

Corporate Audit performs an essential security role by including security assessment in its regular review of the Bank's many divisions. Through these reviews, information is provided to management to assist them in designing mechanisms to better protect the Bank.

Many sophisticated security problems can, in the end, be tackled successfully only by the full resources of society, including public law enforcement agencies. The Bank's policy is to pursue and enhance such cooperation in all the countries in which it operates.

More than 7,000 management and 9,000 non-management employees participated in training sessions during 1984, including classroom seminars, in-branch workshops, Bank-sponsored courses at outside institutions and on-the-job sessions. Here, commercial lenders from the Kelowna, B.C., Commercial Banking Unit visit the Okanagan Valley apple orchards of Rodney Pridham.

Human Resources

As the Bank responds to the continuing environmental changes facing it, the management of human resources also must change. Organizational considerations, technology and human resource management must be in essential balance. For example, the benefits of advances in any one area, such as improvements in automation and the new products and services they permit the Bank to deliver, will not be fully realized unless corresponding changes are made in the others: the development of staff capabilities and the appropriate organization and recognition of people's efforts.

As the Bank works towards achieving this balance, decisions must be made regarding job structure, recruitment, training and development, career progression, performance evaluation and compensation. But at the same time, short-term decisions must be made. The challenge is to minimize short-term dislocation while developing the Bank's human resource base for the future.

1984 was especially significant. The employees of Harris Bankcorp were welcomed to Bank of Montreal without diminishing their basic character as part of a distinct organization with their own traditions and pride in achievements. It was an equally significant year for Bank of Montreal staff, with changes in the Canadian and international marketplaces, new products and operating systems and completion of the Domestic Development Program.

The essential ingredients for personal job performance are the ability to get the work done, the motivation to achieve and the security which comes from confidence in one's skills.

Ensuring the development of employees' skill levels was a major priority in 1984. Training efforts reached an all time high: 54,396 man-days of training, an increase of 50% over 1983. More than 7,000 management employees participated in training courses in 1984, and attendance in credit courses increased 150%. In the non-management area, customer service training had a particularly high priority.

This emphasis on training will be more intense in future with the continuing shift toward a higher proportion of more skilled and more highly-paid staff. Training to help staff understand the increasingly sophisticated needs of customers, and in the delivery of corresponding banking products, will be particularly important because of the progress being made in shifting more staff toward direct revenue-producing activity and away from routine, cost-generating tasks. While this shift is made possible by streamlined operating procedures and technological innovation, it can only be fulfilled by people who are well-supported by proper training.

Allied to training is career development and career path planning. Through successive job placements on a selected career stream, employees can build upon previously acquired skills, maximizing their knowledge base, resulting in the highest level of customer service possible.

A second prerequisite for personal success is recognition of good work performance, which in turn means thorough employee appraisal systems. In 1984, the Bank's appraisal system was augmented, for example, by qualification panels to evaluate and certify all lending officers and, where indicated, to recommend training or other personal development.

A third, and no less important contribution to personal development in a large organization, is the feeling that an employee's voice counts. Program changes were made to ensure effective two-way communication between the Bank and employees at all levels.

During the year, the consolidation of human resource groups throughout the Bank into the corporate Human Resources Division was completed, making possible a strategic view of all human resource activities. This step also ensures consistency, objectivity and equity in personnel administration in every part of the Bank.

The Bank in the Community

A commitment to the quality of life has long characterized the Bank's role in Canada. Traditionally this takes the form of support for education, medical research and a wide variety of cultural, athletic and other civic activities at national, regional and local levels. In 1984, through a program of donations, grants and sponsorships, Bank contributions amounted to more than $3 million.

But the foundation of the Bank's participation in public life is the voluntary service of its employees. Bank of Montreal people are themselves inventive, energetic and generous contributors of their time and talents to a myriad of valuable endeavours of benefit to the whole community. These have included the leadership of several major fund drives.

Bank-organized fund-raising programs of a local nature also exist across Canada, in which Bank employees make contributions to charities of their choice. For example, the "Our People Fund" in Toronto raised $518,000 in 1984, which represented the highest per capita contribution of any major employee group in the metropolitan area. These campaigns are administered by Bank personnel at Bank expense, and donations may be made directly through the payroll system.

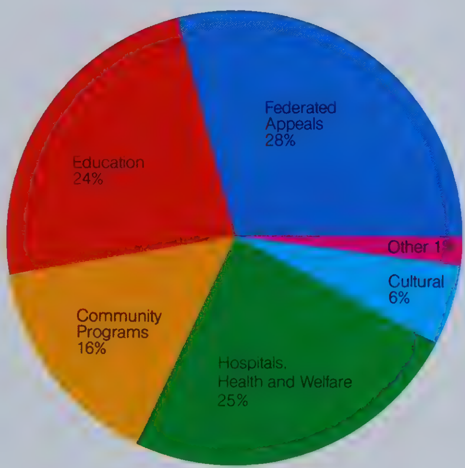
The Bank allocated an increased share of its budget during the year to support for higher education. Donations to the University of Waterloo for the creation of a Chair in Accounting and Finance, and to Simon Fraser University for a Chair in Science supplemented previous support to Queen's University for a Chair in Banking and Finance. A pledge of support over five years was also made to the University of Alberta in response to its 75th Anniversary Appeal.

The Matching Gift Program, established in 1983, continues to reinforce support of higher education. The Bank matches donations made by employees and Directors to colleges and universities of their choice in Canada and the United States, up to a maximum of $1,000 per institution and $3,000 overall per donor each fiscal year. The program has been well received and the Bank matched contributions of $47,866 for the first year of operation.

The Bank's annual Economic and Agricultural Outlook Conferences contribute to public awareness and discussion of the economic issues of the day. Bank officers with specialized knowledge and experience of markets and economics at international, national and regional levels share their views with business, farming and professional people. In 1984, these meetings attracted unprecedented audiences and public notice. This year a special Economic Outlook will be held in Chicago.

In other settings, and through various other means, the Bank continued to participate in the consideration of public issues in which it has a natural interest.

Allocation of Bank Donations by Category



	%
Federated Appeals	28%
Hospitals, Health and Welfare	25
Education	24
Community Programs	16
Cultural	6
Other	1
	100%

Bank of Montreal Realty Inc.

The principal vehicle for the Bank's real estate operations is Bank of Montreal Realty Inc., a wholly-owned subsidiary. The Real Estate Division works closely with other areas of the Bank in establishing and meeting short and long-term space requirements worldwide. Based on property market conditions and existing real estate holdings, decisions are made to develop, purchase, lease or dispose of Bank facilities.

At the end of 1984, the realty company owned 85% of the Bank's investments in land and buildings in Canada, including the Head Office building in Montreal, other office buildings, major computer and data centres and over 600 branches. Assets totalled $365.8 million at year end. Holdings will increase in 1985 through the acquisition from the Bank of the recently acquired and refurbished buildings at Place d'Armes in Montreal, as well as a number of other realty projects.

The realty company's acquisition and development programs are financed by equity capital invested by the Bank, by long-term debt which is fully guaranteed by the Bank and from time to time by short-term borrowings. Generally speaking, the Bank's policy is to place its realty holdings under professional management, to follow sound property management principles and practices, and to fund its real estate holdings separately from its banking activities. Although the Bank as a matter of policy guarantees the debt of its subsidiary, the latter's borrowings are, in effect, supported by the value of the properties and the rental revenue from the Bank and other tenants.

Pension Plans

The Bank, through the Pension Fund Society and other trustee-supervised plans, provides pensions for eligible employees, the major plans covering employees in Canada, the United Kingdom and the United States. In addition, Harris Bank maintains a plan for its employees.

The statements of the Bank pension plans have, in the past, been prepared on a calendar-year basis. Effective 1984, these statements correspond to the October 31 fiscal year end of the Bank.

The Pension Fund Society publishes an annual report which contains detailed financial statements, a description of the organization of the Pension Fund and other plans, as well as information on investment policies and administration.

Since 1968, the Bank has from time to time supplemented on an *ex gratia* basis pensions paid to retired employees in order to compensate in part for increases in the cost of living. All such grants in effect as of December 1984 were assumed by the Pension Fund Society from the Bank, increasing the liabilities of the Pension Fund Society by $54 million. Actuarial valuations of the pension funds are performed in accordance with statutory requirements. It is noteworthy that even after assumption of these liabilities, the pension funds in the aggregate (as at the dates of the latest valuations) were more than fully funded. An important implication of this is that the payment in future of existing supplements is secured by the assets of the Pension Fund. Any future *ad hoc* supplements approved by the Board of Directors will be the responsibility of the Bank. However, the gratifying reduction in the rate of inflation has reduced the likelihood of additional supplements being required in the foreseeable future.

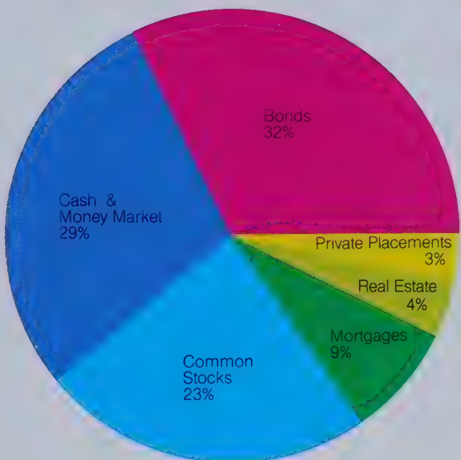
During the last four years, the market value of plan assets increased at an annual rate of 12%, well in excess of the inflation rate of about 8% during the period. As a result, and in spite of the assumption of responsibility by the Pension Fund Society noted above, the cost to the Bank of funding employee pension plans has been favorably affected.

Decisions on investment policy are reviewed by senior management, drawing on recommendations of the Pension Advisory Committee of the Bank's Board of Directors and the Investment Committee of the Pension Fund Society.

The Executive Vice-President and Treasurer of the Bank is responsible for the management of pension assets and for this purpose utilizes the services of a number of professional investment management organizations.

The investment policy is designed to match projected costs with a conservative mix of high quality assets providing an adequate real return.

Pension Fund Investments*
(Market Value)
(As of October 31, 1984)



	Value $ in millions	%
Bonds	$196	32%
Cash and Money Market	183	29
Common Stocks	145	23
Mortgages	53	9
Real Estate	24	4
Private Placements	18	3
Total	$619	100%

*Includes all Bank of Montreal pension plans excluding Harris Bankcorp, Inc.

Board of Directors

At the Annual General Meeting in January, two of our directors, Sir David Nicolson and George H. Sellers, will be retiring. Sir David has been a director since 1970, and Mr. Sellers since 1965. Both have served the Bank faithfully and with distinction and each in his own way will be missed by his colleagues on the Board and by Bank officers who have relied on them for advice and counsel over the years. With them will go our grateful thanks and warmest good wishes.

In August, Hartland M. MacDougall, C.M., resigned from the Board in order to become Chairman of the Board of Directors of the Royal Trust Company. Mr. MacDougall's service with the Bank covered more than 30 years from his first engagement as a summer employee. His colleagues in the Bank will miss their daily contact with him, but extend their best wishes for a happy and successful career with one of Canada's most distinguished institutions. With these good wishes go our thanks for his contributions and unflagging devotion to the well-being of the Bank over the period of his service.

B. Kenneth West, Chairman of the Board and Chief Executive Officer of Harris Bankcorp, Inc., was elected by the Directors to fill the vacancy created by Mr. MacDougall's resignation. Mr. West will stand for re-election to the Board at the Annual General Meeting.

Also standing for election at the next Annual General Meeting will be Messrs.

–Edmund B. Fitzgerald, President and Chief Executive Officer of Northern Telecom Limited of Toronto;

–John F. Fraser, President and Chief Executive Officer of Federal Industries Ltd. of Winnipeg and

–John. H. Hale, Managing Director of Pearson plc. of London, England and formerly Executive Vice-President of Alcan Aluminium Limited of Montreal.

For the purpose of selection of nominees for election to the Board of Directors, the Executive Committee of the Board acts as a nominating committee. Upon approval of the full Board, nominees are recommended by the Board for election by the shareholders.

TABLE OF CONTENTS

Bank of Montreal
Consolidated Statement of Assets and Liabilities
As at October 31
($ in thousands)

Assets	1983	1984
Cash Resources		
Cash and deposits with Bank of Canada	$ 1,132,384	$ 933,365
Deposits with other banks	6,936,239	11,292,828
Cheques and other items in transit, net	248,193	1,049,740
	8,316,816	13,275,933
Securities Issued or Guaranteed by (note 1)		
Government of Canada	4,831,053	4,265,197
Provinces and municipal or school corporations	296,338	338,818
Other	3,316,428	4,231,274
	8,443,819	8,835,289
Loans (Net of Reservations for Losses $1,096,138–1984, $742,649–1983)		
Day, call and short loans to investment dealers and brokers, secured	306,429	647,265
Banks	2,017,946	2,547,465
Mortgages	5,162,801	6,235,935
Other	34,059,143	38,497,978
	41,546,319	47,928,643
Other		
Customers' liability under acceptances	3,065,234	3,612,090
Land, buildings and equipment (note 2)	707,019	1,110,253
Other assets (note 3)	1,115,024	1,729,211
	4,887,277	6,451,554
Total Assets	$63,194,231	$76,491,419

Liabilities, Capital and Reserves	1983	1984
Deposits (note 5)		
Payable on demand	$ 5,273,285	$ 6,975,369
Payable after notice	15,057,585	16,036,978
Payable on a fixed date	34,988,815	43,659,037
	55,319,685	66,671,384
Other		
Acceptances	3,065,234	3,612,090
Liabilities of subsidiaries, other than deposits (note 6)	639,674	634,218
Other liabilities (note 7)	998,502	1,508,050
Minority interests in subsidiaries	55,216	55,323
	4,758,626	5,809,681
Subordinated Debt		
Bank debentures (note 8)	728,359	1,064,749
Capital and Reserves		
Appropriations for contingencies	193,166	324,939
Shareholders' equity		
Capital stock (note 9)	505,853	791,074
Contributed surplus	689,697	807,982
Retained earnings	998,845	1,021,610
Total Capital and Reserves	2,387,561	2,945,605
Total Liabilities, Capital and Reserves	**$63,194,231**	**$76,491,419**

William D. Mulholland,
Chairman and
Chief Executive Officer

Grant L. Reuber,
President and
Chief Operating Officer

Bank of Montreal
Consolidated Statement of Income

For the Year Ended October 31
($ in thousands except per share amounts)

	1983	1984
Interest, Dividend and Fee Income		
Loans	$5,588,114	$5,767,601
Lease financing	73,303	67,230
Securities	612,767	852,355
Deposits with banks	746,828	901,145
	7,021,012	7,588,331
Interest Expense		
Deposits	5,270,436	5,769,881
Bank debentures	88,609	111,400
Liabilities other than deposits	80,306	80,646
	5,439,351	5,961,927
Net Interest Income	1,581,661	1,626,404
Provision for loan losses	360,897	374,998
Net Interest Income After Provision for Loan Losses	1,220,764	1,251,406
Other operating income	411,095	499,311
Net Interest and Other Income	1,631,859	1,750,717
Non-Interest Expense		
Salaries	644,427	706,808
Pension and other staff benefits	82,812	70,763
Premises and equipment	256,784	287,816
Other expenses	265,050	318,837
	1,249,073	1,384,224
Income Before Provision for Income Taxes	382,786	366,493
Provision for income taxes (note 10)	95,800	78,725
Income Before Minority Interests in Earnings of Subsidiaries	286,986	287,768
Minority interests in earnings of subsidiaries	4,436	4,368
Net Income	$ 282,550	$ 283,400
Net income per common share (note 11)	$ 3.87	$ 3.37

Bank of Montreal

Consolidated Statement of Appropriations For Contingencies

For the Year Ended October 31
($ in thousands)

	1983	1984
Beginning of Year		
Tax allowable	$ 92,889	$ 35,533
Tax paid	122,677	157,633
Total	215,566	193,166
Changes During Year		
Loan loss experience for the year	(550,297)	(364,825)
Provision for loan losses based on five-year average loan loss experience	360,897	374,998
Transfer from retained earnings	167,000	121,600
Net Change During Year	(22,400)	131,773
End of Year		
Tax allowable	35,533	155,143
Tax paid	157,633	169,796
Total	$193,166	$324,939

Bank of Montreal
Consolidated Statement of Changes in Shareholders' Equity
For the Year Ended October 31
($ in thousands)

Class A Preferred Shares (note 9)	1983	**1984**
Balance at beginning of year	$375,086	**$ 375,086**
Proceeds of the sale of 11,000,000 Preferred Shares–Series 3	–	**275,000**
Conversion of 200 Convertible Preferred Shares–Series 1 to common shares	–	**(7)**
Balance at October 31	$375,086	**$ 650,079**

Common Shares and Contributed Surplus (note 9)	Number of Shares	Common Shares	Contributed Surplus
Balance at October 31, 1982	62,552,739	$125,105	$ 619,785
Shareholder dividend reinvestment and share purchase plan	2,477,841	4,957	61,542
Stock dividend program	350,053	700	8,294
Exercise of Class A Preferred Shares–Series 2 Warrants	1,500	3	41
Conversion of Bank of Montreal Mortgage Corporation exchangeable debentures	1,133	2	35
Balance at October 31, 1983	65,383,266	130,767	689,697
Shareholder dividend reinvestment and share purchase plan	4,729,349	9,459	110,096
Stock dividend program	384,622	769	8,177
Conversion of Class A Convertible Preferred Shares–Series 1	200	–	7
Conversion of Bank of Montreal Mortgage Corporation exchangeable debentures	162	–	5
Balance at October 31, 1984	70,497,599	$140,995	$ 807,982

Retained Earnings	1983	**1984**
Balance at beginning of year	$980,310	**$ 998,845**
Net income for the year	282,550	**283,400**
Dividends–Common	(126,486)	**(135,391)**
–Preferred	(34,029)	**(52,584)**
Costs of share issue net of related tax	–	**(4,576)**
Net after tax gain on translation of net investment in foreign operations	–	**10,203**
Prior period adjustment (note 12)	–	**(14,660)**
Transfer to appropriations for contingencies	(167,000)	**(121,600)**
Income taxes related to the above transfer	63,500	**57,973**
Balance at October 31	$998,845	**$1,021,610**

The accounting policies and financial statement format of Canadian Chartered Banks are prescribed by the Bank Act and its regulations. The accounting policies followed by the Bank conform in all material respects with accounting principles generally accepted in Canada, except for the accounting for losses on loans, the deferral of gains and losses on the disposal of certain debt securities and the translation of foreign currencies.

The significant accounting policies followed by the Bank are described below:

Basis of Consolidation

These consolidated financial statements include the Bank and all its subsidiary corporations. The purchase method is used to account for all acquisitions. The difference between the cost of the investment and the fair value of the net assets acquired is deferred and amortized over a period not exceeding 40 years.

On September 4, 1984, the Bank acquired 100% of the voting shares of Harris Bankcorp, Inc. The assets and liabilities of Harris Bankcorp, Inc. are included in the October 31, 1984 Consolidated Statement of Assets and Liabilities and the results of its operations from the date of acquisition are included in the Consolidated Statement of Income.

Investments in affiliated corporations in which the Bank owns 20% to 50% of voting shares are accounted for by the equity method whereby the income of such corporations is recognized based on the Bank's proportionate share of the earnings.

Securities

The Bank's securities are accounted for on either a trading or investment basis.

Trading account securities are carried at market value and gains and losses on sale and adjustments to market value are included in income.

Equity securities which are held for investment purposes are carried at cost and gains and losses on sales are included in income when realized. Debt securities which are held for investment purposes are carried at amortized cost. Any permanent impairment in the value of investment securities is recognized through a charge to income. Gains and losses on sale of debt securities are deferred and amortized to income over five years, except for gains and losses on the sale of Treasury bills which are included in income when realized. Other securities which are loan substitutes are accorded the accounting treatment applicable to loans.

Loans

Loans are stated at their principal amount less any related unearned income, unamortized discounts and reservations for losses.

Interest income is recorded on an accrual basis except for loans classified as non-accrual. Non-accrual loans are those on which interest payments are recorded in income only when received in cash. Whenever loans are classified as non-accrual any accrued but uncollected interest is deducted from current income.

Personal plan and credit card loans are classified as non-accrual once payments are six months in arrears. There is a mandatory write-off policy for any personal plan loan one year in arrears or for any credit card loan six months in arrears. Subsequent payments received, net of collection costs, are applied first to interest then to principal.

Mortgage loans are reviewed quarterly and are classified as non-accrual when they are in default by 90 days or more and there is significant doubt as to the collectibility of interest or principal.

All other loans are reviewed at least quarterly. If there is significant doubt as to the ultimate collectibility of principal, a specific reservation is established at a level sufficient to provide for the estimated impairment of loan principal and the loan is classified as non-accrual, irrespective of the status of interest or principal payments. In addition, if the payment of interest or principal on these loans is contractually past due 90 days, a review is triggered and if collectibility is in doubt, the loan is classified as non-accrual. In any event, if arrears of interest or principal reach 180 days, these loans are automatically classified as non-accrual irrespective of any judgment on ultimate collectibility.

Any loan may be classified as non-accrual if considered appropriate for any other reason.

Every loan against which a specific reservation has been placed is classified as non-accrual. However, not every loan classified as non-accrual necessarily has a specific reservation against it, as this depends upon whether there is doubt as to the ultimate collectibility of principal.

In addition to specific reservations the Bank also maintains general reservations against sovereign and country risk loans. The purpose of these general reservations is to permit management to provide from time to time against possible loan losses when in its judgment circumstances are such as to give rise to concern, even though events may not have occurred which would justify the classification of individual loans as non-accrual. General reservations are prudential in nature and may be established on an allocated or unallocated basis.

A loan is written off when all enforceable security has been liquidated and all legal action that has been taken to effect a recovery has been concluded.

Loan fees are recorded in income when received to the extent that they relate to expenses which have been incurred for services which have been provided by the Bank. Fees received for loan rescheduling are deferred and amortized over the term of the loan.

Loan Losses
The annual actual loan loss experience comprises net new reservations for the year less recoveries against loans previously written off.

The provision for loan losses charged to income is calculated using an averaging formula prescribed by the Minister of Finance designed to average the loss experience over a five year period.

The difference between the annual actual loan loss experience and the five year average provision for loan losses is recorded in the Appropriations for Contingencies account.

Appropriations for Contingencies
The Appropriations for Contingencies account represents reserves for possible unspecified future credit losses and consists of a tax-allowable and a tax-paid portion. These reserves, which are in addition to specific and general reservations, are established through transfers from retained earnings. The maximum amount of such transfers which may be made on a tax allowable basis is prescribed by the Minister of Finance.

Land, Buildings and Equipment
Land, buildings and equipment are stated at cost less an allowance for depreciation and amortization. Major Canadian properties are depreciated using the sinking fund method, while all other buildings and leasehold improvements are depreciated on a straight line basis over their estimated useful lives. Equipment is depreciated using the declining balance method.

Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. Revenues and expenses are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency assets and liabilities, other than those relating to net investments in foreign operations, are recorded in Other Operating Income. In accordance with revised rules issued by the Inspector General of Banks effective November 1, 1983, the Bank modified its accounting policy regarding unrealized foreign currency translation gains and losses on investments in foreign branches, subsidiaries and associated corporations. Previously such gains and losses were recorded in Other Operating Income. These are now recorded in retained earnings, net of any offsetting losses and gains on liabilities and forward exchange contracts used to hedge the investments and net of any applicable income taxes. Only at such time as they are realized are such gains and losses recorded in income. The effect of these modifications is not considered to be material.

Income Taxes
The Bank follows the tax allocation basis of accounting for income taxes under which the provision for income taxes is related to the accounting income for the year. The difference between this provision and the taxes actually payable for the year results in deferred income taxes.

1 Securities

As at October 31

($ in millions)	1983 Total	1984 Total	Within 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	No specific maturity
Liquidity								
Government of Canada Treasury bills	$4,631	$3,993	$3,993	$ –	$ –	$ –	$ –	$ –
Provincial government securities	257	310	308	–	–	–	2	–
Other debt securities	724	694	508	53	–	133	–	–
	5,612	4,997						
Loan Substitutions								
Floating rate preferred shares	945	1,027	–	–	–	–	–	1,027
Floating rate income debentures	626	503	98	64	291	50	–	–
Fixed rate income debentures	82	82	–	–	82	–	–	–
Floating rate small business development bonds	374	347	43	246	58	–	–	–
Debt of foreign issuers	318	1,241	406	380	148	133	174	–
	2,345	3,200						
Investments								
Government of Canada securities	83	64	8	–	5	48	3	–
Other equity securities	205	214	–	–	–	–	–	214
Other debt securities	35	22	15	7	–	–	–	–
	323	300						
Trading	164	338	338	–	–	–	–	–
	$8,444	$8,835	$5,717	$750	$584	$364	$179	$1,241

The current value of total securities is estimated to be $8,842 million (1983–$8,453 million).

Securities of Harris Bankcorp, Inc. having a carrying value of $733 million were pledged, where permitted or required by law, to secure liabilities and public and trust deposits.

2 Land, Buildings and Equipment

As at October 31

($ in thousands)	1983 Net Book Value	1984 Cost	1984 Accumulated Depreciation	1984 Net Book Value
Land	$111,990	$203,066	$ –	$ 203,066
Buildings	308,123	605,383	103,661	501,722
Equipment	142,938	509,125	280,877	228,248
Leasehold interests and improvements	143,968			177,217
	$707,019			$1,110,253

Depreciation of buildings and equipment and amortization of leasehold improvements amounted to $56,130,000 for the year ended October 31, 1984 (1983–$52,475,000).

3 Other Assets

As at October 31

($ in thousands)	1983	1984
Accrued interest income	$ 664,636	$ 838,846
Deferred income taxes	230,967	313,878
Goodwill and other valuation intangibles	24,402	171,095
Other	195,019	405,392
	$1,115,024	$1,729,211

4 Geographic Distribution of Assets by Location of Ultimate Risk

	As at September 30, 1983				As at September 30, 1984			
(currencies in millions)	Cdn $	U.S. $	Other Currencies	Total Cdn $ Equiv.	Cdn $	U.S. $	Other Currencies	Total Cdn $ Equiv.
Canada	35,927	5,257	46 £ 100 D.M. 64 S.F. 15 Cdn $ Equiv.	42,589	34,883	5,305	53 £ 89 D.M. 37 S.F. 30 Cdn $ Equiv.	42,045
United States	68	5,177	28 £ 23 D.M. 36 S.F. 44 Cdn $ Equiv.	6,575	108	11,968	41 £ 37 D.M. 7 S.F. 12 Cdn $ Equiv.	15,974
Europe								
United Kingdom	121	528	319 £ 90 D.M. 57 S.F. 54 Cdn $ Equiv.	1,489	152	1,122	530 £ 79 D.M. 128 S.F. 5 Cdn $ Equiv.	2,599
Italy	39	400	21 £ 38 D.M. 24 S.F. 78 Cdn $ Equiv.	681	37	396	15 £ 77 D.M. 48 S.F. 59 Cdn $ Equiv.	700

	As at September 30, 1983				As at September 30, 1984			
(currencies in millions)	Cdn $	U.S. $	Other Currencies	Total Cdn $ Equiv.	Cdn $	U.S. $	Other Currencies	Total Cdn $ Equiv.
France	16	307	1 £ 129 D.M. 25 S.F. 88 Cdn $ Equiv.	560	58	612	12 £ 93 D.M. 77 S.F. 29 Cdn $ Equiv.	993
Other European	136	1,191	31 £ 999 D.M. 225 S.F. 197 Cdn $ Equiv.	2,456	255	1,421	46 £ 780 D.M. 289 S.F. 131 Cdn $ Equiv.	2,819
Latin America and Caribbean								
Brazil	62	933	231,737 Cruz.	1,599	212	962	618,757 Cruz.	1,829
Mexico	200	1,050	1 Cdn $ Equiv.	1,494	258	1,134	–	1,752
Venezuela	–	448	–	552	–	465	–	613
Other Latin America and Caribbean	22	663	9 D.M. 2 S.F. 51 Cdn $ Equiv.	895	81	691	11 D.M. 4 S.F. 61 Cdn $ Equiv.	1,059
Asia, Oceania and Australasia								
Japan	26	1,622	21 £ 194 D.M. 149 S.F. 50,466 Yen 72 Cdn $ Equiv.	2,578	24	2,579	52 £ 261 D.M. 149 S.F. – 507 Cdn $ Equiv.	4,204
Other Asia, Oceania and Australasia	6	1,071	2 £ 79 D.M. 95 S.F. 170 Cdn $ Equiv.	1,592	19	1,201	10 £ 38 D.M. 85 S.F. 181 Cdn $ Equiv.	1,858
Africa and Middle East	4	196	3 £ 25 D.M. 9 S.F. 2 Cdn $ Equiv.	271	1	148	3 £ 26 D.M. – –	212

The location of ultimate risk is defined as the location of residence of the borrower or the guarantor if the obligation is guaranteed. However, where the borrower or guarantor is a branch office, the location of residence of the head office is used, and where most of the borrower's or guarantor's assets or the security for the loan are situated in a different country, that country is deemed to be the location of ultimate risk. These loans are not necessarily utilized in or repaid from the geographic areas in which the related assets are included.

The countries noted separately above each represent an ultimate risk of one percent or more of the Bank's aggregate outstanding securities, deposits with banks, customers' liability under acceptances and loans excluding mortgages.

Assets are shown in source currencies and Canadian dollar equivalents with Canadian dollar equivalents noted for sundry foreign currency outstandings. Translation rates to Canadian dollars used to make the above determination were:

	Sept. 30, 1983	Sept. 30, 1984
U.S. $	1.2322	1.3174
Pound Sterling (£)	1.8425	1.6287
Deutsche Mark (D.M.)	0.4691	0.4291
Swiss Franc (S.F.)	0.5820	0.5208
Cruzeiro (Cruz)	0.001670	0.00056565
Yen	0.005239	0.005343

The only foreign country from which more than 10% of the Bank's consolidated interest income was derived was the United States where interest income was U.S. $881 million in 1984 (1983–U.S. $647 million).

5 Deposits

As at October 31

($ in millions)	1983	1984
Deposits by Canada	$ 677	$ 543
Deposits by provinces	162	216
Deposits by banks	15,122	18,831
Deposits by individuals	22,132	24,648
Other deposits	17,227	22,433
	$55,320	$66,671

6 Liabilities of Subsidiaries, Other than Deposits

As at October 31

($ in thousands)	Interest Rate	Date Maturing	1983	1984
Bank of Montreal Mortgage Corporation				
Series A debentures	7.75%	October, 1987	$ 1,583	$ 1,383
Series B debentures	9.00	February, 1989	1,355	1,355
Series 1 debentures	10.00	June, 1984	50,000	–
Series 2 debentures	11.25	October, 1984	50,000	–
Series 3 debentures	13.63	May, 1985	50,000	50,000
Series 4 debentures	11.50	August, 1985	75,000	75,000
Exchangeable debentures (1)	11.75	September, 1991	95,662	95,657
Bank of Montreal Realty Inc.				
Series 1 debentures	13.63	December, 2000	100,000	100,000
Notes	16.75	March, 1988	75,000	75,000
Mortgages	(2)	(2)	8,355	7,447
Bank of Montreal Leasing Corporation				
Series G notes, secured	10.50	February, 1986	15,600	15,600
Series I notes, secured	(2)	(2)	8,916	29,270
Short term notes, unsecured	(3)	(3)	108,203	139,781
Harris Bankcorp, Inc.				
Notes	(2)	(2)	–	41,732
Empresa Técnica de Organizaçào e Participaçoes S.A.				
Mortgages			–	1,993
			$639,674	$634,218

(1) Exchangeable into common shares of the Bank as described in note 9.

(2) At varying rates of interest and varying terms to maturity to 1998.

(3) At varying rates of interest and varying terms to maturity to 1985.

7 **Other Liabilities**
As at October 31

($ in thousands)	1983	1984
Accrued interest payable	$752,724	$ 931,709
Accounts payable and accrued expenses	224,186	547,188
Deferred loan fees	21,592	29,153
	$998,502	$1,508,050

Included in Income from Loans is $13,332,000 (1983–$12,222,000) of amortization of deferred loan fees.

8 **Bank Debentures**
As at October 31

($ in thousands)	Interest Rate	Date Maturing	Redeemable at the option of the Bank beginning	1983	1984
Series A	7.50%	April, 1992	April, 1986	$ 3,346	$ 2,842
Series C	7.25	February, 1987	February 1983	975	975
Series 1	9.00	March, 1984	–	8,516	–
Series 2	9.25	October, 1984	–	16,278	–
Series 3	9.54*	April, 1989	April, 1984	75,000	75,000
Series 4	13.50*	August, 1991	August, 1984	125,000	125,000
Series 5	12.50*	December, 1990	December, 1985	123,270	131,440
Series 6	10.88*	October, 1991	October, 1988	154,088	164,300
Series 7	16.25	December, 1991	December, 1987	184,905	197,160
Series 8	15.25	July, 1994	–	36,981	39,432
Series 9	10.25*	April, 1996	April, 1989	–	328,600
				$728,359	$1,064,749

Series 5, 6, 7, 8 and 9 debentures are denominated in U.S. currency, for which the principal amounts are U.S. $100 million, U.S. $125 million, U.S. $150 million, U.S. $30 million and U.S. $250 million respectively. The equivalent Canadian dollar liability of these debentures at year-end reflects the conversion rate of 1.3144 (1983–1.2327).

All debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors. In accordance with the formula prescribed in the Bank Act, the Bank has the capacity, as of November 1, 1984, to issue an additional $246 million of debentures.

*Floating rate debentures, interest rate stated is as at October 31, 1984.

The aggregate sinking fund requirements and maturities within and beyond the next 5 years of the Bank's debentures as at October 31, 1984, are as follows:

($ in thousands)	
1985	$ 45
1986	45
1987	943
1988	236
1989	75,000
Thereafter	988,480
	$1,064,749

9 Capital Stock
As at October 31

($ in thousands)

a) Share Capital

Authorized:

100,000,000 Common Shares with a par value of $2 each.

50,000,000 Class A Preferred Shares without par value, issuable in series, provided that the aggregate consideration for all Class A shares that may be issued may not exceed $1 billion.

12,500,000 Class B Preferred Shares without par value, issuable in series, provided that the aggregate consideration for which all Class B shares that may be issued cannot exceed $250 million. These shares may be issued in foreign currencies.

Issued and fully paid:

	1983		1984	
	Number of Shares	$	Number of Shares	$
Common Shares	65,383,266	$130,767	70,497,599	$140,995
Class A Convertible Preferred Shares —Series 1	5,799,600	200,086	5,799,400	200,079
Class A Preferred Shares—Series 2	7,000,000	175,000	7,000,000	175,000
Class A Preferred Shares—Series 3	—	—	11,000,000	275,000
		$505,853		$791,074

Features of the Class A Preferred Shares are as follows:

	Series 1	Series 2	Series 3
Stated Value per Share	$ 34.50	$ 25.00	$25.00
Annual cumulative dividend	$ 2.85	$ 2.50	$ 2.125
Other Features:	*Each share is:* —Convertible into one common share, at the holder's option, before May 26, 1991. —Convertible into common shares at the Bank's option under certain circumstances before May 26, 1991 at prices ranging from $31.91 to $32.78 per common share. —Redeemable on and after May 26, 1986 at declining premiums.	*Each share carries:* —One First Warrant to purchase one common share at $29.50 until June 14, 1985 and $33.00 per share thereafter until December 15, 1988; and —One Second Warrant to be exercisable from June 17, 1985 to December 15, 1988 to purchase one common share at a price of $33.00. —Holders of the warrants have the option to exercise each warrant by delivering one Series 2 Preferred Share plus cash equivalent to the difference between the exercise price and $25.00. *Each share is:* —Redeemable on and after December 16, 1988 at declining premiums.	*Each share is:* —Entitled, after February 23, 1989, to a minimum quarterly dividend equal to the greater of $0.53125 per share or one quarter of 75% of the average of the prime rate of the Bank (as defined) times $25.00. —Redeemable on and after February 1, 1989 at declining premiums.

b) Exchangeable Debentures

The holders of the $95,657,000 exchangeable debentures of Bank of Montreal Mortgage Corporation due September 8, 1991 have the right to exchange the debentures for common shares of the Bank at a price of $33.00 per common share.

Bank of Montreal Mortgage Corporation may redeem the debentures on or after September 8, 1986 at declining premiums. Under certain conditions, the Bank has the right to exchange the debentures for common shares of the Bank at $31.35 per common share.

c) Shares Reserved for Issue

The following table as at October 31, 1984, indicates the maximum remaining number of common shares allocated and reserved by the Board of Directors for issue in respect of:

	Number of Shares
Dividend reinvestment and share purchase plan and stock dividend program	2,549,072
Class A Convertible Preferred Shares—Series 1	5,799,400
Class A Preferred Shares—Series 2 First Warrants	6,998,500
Class A Preferred Shares—Series 2 Second Warrants	7,000,000
Bank of Montreal Mortgage Corporation exchangeable debentures	3,315,300
	25,662,272

10 Provision for Income Taxes

The Provision for Income Taxes recorded in the Consolidated Statement of Income represents the taxes applicable to the income reported therein. The deferred tax portion of this provision represents timing differences related primarily to the recognition of the loan loss provision for tax and financial statement purposes.

The Credit for Income Taxes recorded in Retained Earnings represents the income tax effect related to:
—transfers from Retained Earnings to Appropriations for Contingencies;
—expenses related to the issuance and sale of equity securities of the Bank;
—unrealized gains and losses on the translation of the Bank's net investments in foreign operations.

For the year ended October 31 ($ in thousands)	1983	1984
Provision for Income Taxes:		
Statement of Income		
Current	$83,254	$157,955
Deferred	12,546	(79,230)
	95,800	78,725
Statement of Retained Earnings		
Current	(6,545)	(74,653)
Deferred	(56,955)	–
	$(63,500)	$ (74,653)

The Provision for Income Taxes recorded in the Consolidated Statement of Income differs from the statutory marginal tax rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

($ in thousands)	1983		1984	
Income before provision for income taxes	$382,786	100.0%	$366,493	100.0%
Provision for taxes thereon at Canadian statutory marginal income tax rates	$185,651	48.5%	$174,727	47.7%
Marginal tax rate reductions due to:				
Dividends from taxable Canadian corporations	(41,366)	(10.8)	(39,529)	(10.8)
Interest on income debentures and small business development bonds	(38,712)	(10.1)	(34,873)	(9.5)
Income of foreign subsidiaries	(39,859)	(10.4)	(50,397)	(13.7)
Other items–net	1,097	0.2	7,570	2.0
Foreign taxes payable by foreign subsidiaries	28,989	7.6	21,227	5.8
Provision for income taxes	$ 95,800	25.0%	$ 78,725	21.5%

11 Net Income per Common Share

Net income per common share has been calculated using the daily average of common shares outstanding. For the year ended October 31, 1984 this average was 68,414,123 (1983–64,164,442). Fully diluted net income per common share was $3.30 (1983–$3.72) and has been calculated as if: (a) all outstanding Class A Convertible Preferred Shares–Series 1 had been converted into common shares at the beginning of the year and; (b) all outstanding Class A Preferred Shares–Series 2 had been converted into common shares at the beginning of the year with the exercise of the First Warrants, and assets at the current rate of leverage had been generated producing income at the current rate of return on total assets.

12 Prior Period Adjustment

In 1984 income taxes of $14.7 million applicable to prior years have been charged to Retained Earnings as a prior period adjustment.

13 Guarantees and Letters of Credit

The Bank issues letters of credit and guarantees the payment of liabilities on behalf of customers. In the event of a call on these commitments, the Bank would have recourse against its customers. These amounts, which are not reported in the Consolidated Statement of Assets and Liabilities, are as follows:

As at October 31 ($ in millions)	1983	1984
Guarantees	$1,137	$1,571
Letters of credit	1,375	1,772
	$2,512	$3,343

14 Pension Funds

The Pension Fund Society of Bank of Montreal is the Bank's principal pension plan in Canada, while a number of smaller plans provide pensions to the Bank's executives as well as to employees in other parts of the world.

These plans are non-contributory with the Bank responsible for all contributions to adequately fund the plans. The Bank has established the Pension Advisory Committee of the Board of Directors to provide guidance and report on plan affairs to the Bank's Board of Directors.

Actuarial valuations of the pension funds are performed in accordance with statutory requirements. As at the dates of the latest valuations, the pension funds were fully funded in the aggregate. The amount charged to expense for pension contributions for 1984 was $15,317,000 (1983–$35,551,000).

15 Lease Commitments

As at October 31

The Bank leases buildings and equipment under operating lease agreements. Annual contractual rental commitments of more than $25,000 are as follows:

($ in thousands)	
1985	$ 78,040
1986	69,117
1987	62,645
1988	55,441
1989	48,730
Thereafter	618,111

16 Legal Proceedings

In 1981 legal proceedings were initiated against the Bank in Alberta and British Columbia alleging that in May 1979 the Bank, as a creditor, acted improperly in its appointment of the original Receiver and Manager under debentures it held from Abacus Cities Ltd. ("Abacus").

The Alberta action was commenced by the Trustee in Bankruptcy of Abacus against, amongst others, the Bank and the original Receiver and Manager claiming $300 million. The Bank filed an application to strike out the action on the grounds that the matter is res judicata and the plaintiff lacks status. By judgment delivered in July 1984, a judge of the Court of Queen's Bench of Alberta, in Bankruptcy, held the action to be res judicata and directed that the Trustee discontinue the proceedings. Leave to appeal the July Judgment has been granted to the Trustee. Should the appeal be successful and the action be further prosecuted by the Trustee, the Bank's Alberta Counsel have advised that, based upon their present knowledge of the facts, there are reasonable defenses against the imposition of any liability and that no substantial damages ought to be awarded against the Bank in the event that the Alberta court finds that the Bank's debenture security was not enforceable.

In the British Columbia action three shareholders and former officers of Abacus claim damages from the Bank and others. Two of the Bank's co-defendants, Thorne Riddell and Company and Vernon C. Morrison, C.A., have made a third party claim against the Bank for indemnification. The Bank has denied liability to the plaintiffs in the third party proceedings.

The defendants applied on October 17, 1984, to strike out the plaintiff's claim on the grounds that the individuals cannot sue for alleged wrongs to Abacus. Judgment has been reserved. Additional preliminary motions by the defendants are pending including one to dismiss the action on grounds of res judicata. The Bank's British Columbia Counsel are of the opinion that there are reasonable defenses against the imposition of liability, that the plaintiffs have no right to recover personally for damages alleged to have been suffered by Abacus, and that the damages claimed appear to substantially duplicate those claimed by Abacus in the Alberta action.

17 **Acquisition of Harris Bankcorp, Inc.**

On September 4, 1984 the Bank acquired 100% of the voting shares of Harris Bankcorp, Inc. for cash. Details of the acquisition which was accounted for using the purchase method, are as follows:

		(Cdn $ in millions)
Net assets acquired:		
Tangible assets	–Cash resources	$ 3,581
	–Securities	1,202
	–Loans net of reservations for losses	5,917
	–Land, buildings and equipment	343
	–Customers' liability under acceptances	436
	–Other assets	335
		11,814
Less liabilities assumed	–Deposits	10,462
	–Acceptances	436
	–Liabilities of subsidiaries, other than deposits	42
	–Other liabilities	303
		11,243
Net assets acquired		571
Excess of purchase price over net assets acquired		147
Total cost of investment		$ 718

The Consolidated Statement of Income includes the results of operations of Harris Bankcorp, Inc. from the date of acquisition. The excess of purchase price over net assets acquired is being amortized over 25 years.

Statement of Responsibility for Financial Data

The consolidated financial statements of Bank of Montreal have been prepared by, and are the responsibility of, the Bank's management. The presentation and information provided therein has been prepared in accordance with the provisions of the Bank Act of Canada and with appropriate generally accepted accounting principles in Canada, and include amounts based on informed judgements and estimates of the expected effects of current events and transactions.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. The Bank's overall controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel; the application of accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; as well as a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition.

The Board of Directors pursues its oversight role for these financial statements through the Audit Committee, which is composed solely of directors who are not officers or employees of the Bank. The Shareholders' auditors and the Bank's Chief Auditor have full and free access to the Audit Committee to discuss audit, financial reporting and related matters.

William D. Mulholland,
Chairman and
Chief Executive Officer

Grant L. Reuber,
President and
Chief Operating Officer

Robert B. Wells,
Senior Vice President
Accounting and Control

November 27, 1984

Auditors' Report

To the Shareholders of Bank of Montreal

We have examined the consolidated statement of assets and liabilities of Bank of Montreal as at October 31, 1984 and the consolidated statements of income, appropriations for contingencies and changes in shareholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Bank of Montreal as at October 31, 1984 and the results of its operations for the year then ended in accordance with prescribed accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Coopers & Lybrand

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Montreal, November 27, 1984

The purpose of this section is to provide the reader with a review of the major factors that affected the Bank's financial performance during 1984.

Throughout this section, the financial results are segmented into Domestic operations and International operations. Domestic operations represent the Bank's business booked in Canada as transacted in a variety of currencies regardless of the residency of the customer. International operations are comprised of the Bank's business activities booked outside Canada again regardless of the residency of the customer. In addition, International operations include the international money market transactions booked in Canada. The segmented results reflect the appropriate allocation of corporate expenses and capital to both the Domestic and International operations. The method of calculating segmented results differs from that used in prior years when the segmentation was based on residency of the customer. The segmented results for prior periods have been restated throughout this section to be consistent with the method used this year.

International operations include the results of operations of Harris Bankcorp, Inc. ("Harris") from September 4th, 1984. On that date, the Bank acquired 100% of the voting shares of Harris for cash. Harris owns seven suburban Chicago banks and trust companies located in Arizona, Florida and New York.

Certain revenues which the Bank receives such as dividends from taxable Canadian corporations, term preferred shares and small business development bonds have already been taxed and are therefore tax exempt to the Bank. Accordingly, in calculating the net interest margin, net interest income is adjusted for the value of various tax benefits to become "taxable equivalent net interest margin".

The amounts of the adjustments in each of the last five years are:

$187 million in 1980
$222 million in 1981
$220 million in 1982
$155 million in 1983
$127 million in 1984

Loan loss reservations are comprised of specific and general reservations against loans and are deducted from loan balances shown on the balance sheet. They are not included in capital funds as shown in the financial statements. *Loan loss reservations* are intended to provide against the possibility that loan principal will not be repaid.

Provision for loan losses is the amount deducted from income based on an averaging formula. This averaging formula is based on the latest five year *loan loss experience* and total eligible loans defined by the Minister of Finance.

Loan loss experience is the amount in any given year of *loan loss reservations,* less any reversals of *loan loss reservations* made in earlier years but no longer required, and less any recoveries of loans previously written off.

The net of the *loan loss experience* and the *provision for loan losses* is charged or credited, as the case may be, to appropriations for contingencies.

Net Income

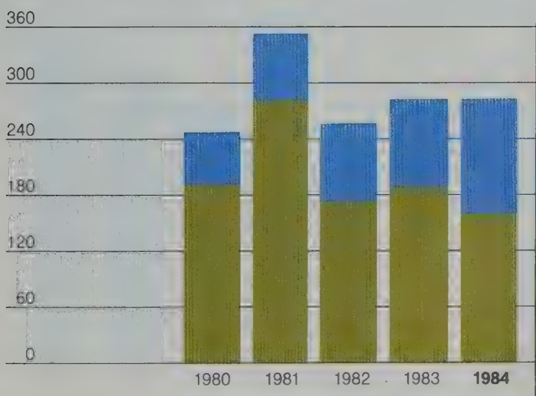
Net income for the year at $283.4 million was $0.8 million higher than 1983.

The increase in net income is after absorbing an increase of $14 million in our *provision for loan losses*. The reason for this increase in the *provision for loan losses,* despite a $186 million improvement in our *loan loss experience,* is explained in a later section.

The Bank's Domestic operations contributed 57% of reported net income, down 10% from the previous year. This reduction in Domestic earnings was largely caused by a narrowing of interest spreads coupled with an increase in non-interest expense.

International earnings increased by $29 million, or 31%, as a result of a variety of factors. These include an increase in earning assets, in part attributable to the Harris merger; changes in exchange rates, particularly a decline in the Canadian dollar vis à vis the U.S. dollar; sale of surplus property; and a change in accounting for translation gains and losses on capital investments mandated by the Inspector General of Banks.

Net Income
($ in millions)



	1980	1981	1982	1983	1984
Domestic	192	282	177	189	**160**
International	55	71	80	94	**123**
Total Bank	247	353	257	283	**283**

Average Assets

Average assets, defined as the average of the month end assets of the Bank, increased $3.0 billion or 4.7% to $66.7 billion in 1984.

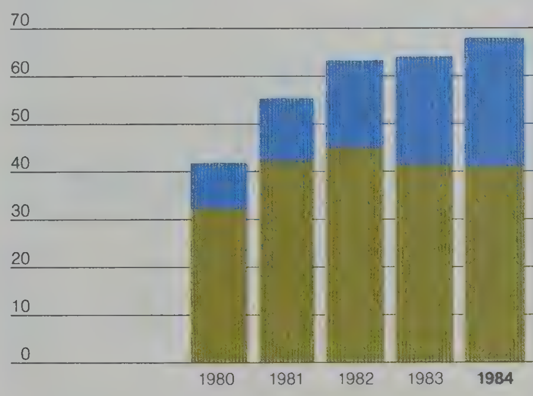
Total assets as at October 31st, 1984 were $76.5 billion, an increase of $13.3 billion or 21.0% compared to the previous fiscal year end. The acquisition of Harris Bankcorp in September accounted for approximately $10 billion of this increase.

Average Domestic assets, at $40.9 billion, remained relatively stable from a year ago and reflect generally slow loan demand in Canada. During this period of slow growth, the Bank continued to give priority to improving the quality of the loan portfolio and of its lending and loan administration procedures.

A $3.3 billion increase in average International assets was the result of higher assets, the higher value of the U.S. dollar vis à vis the Canadian dollar and the effect of the Harris acquisition.

Liquid assets, which include cash, deposits with Bank of Canada, deposits with other banks and Treasury bills of the governments of Canada and the United States exceeded $18 billion at year end.

Average Assets
($ in billions)



	1980	1981	1982	1983	1984
Domestic	32.7	41.8	44.9	41.2	**40.9**
International	8.8	13.2	17.9	22.5	**25.8**
Total Bank	41.5	55.0	62.8	63.7	**66.7**
Year end assets	47.5	62.4	62.0	63.2	**76.5**

Return on Average Assets

A key measure of the Bank's performance is the return on average assets ratio which is defined as net income divided by the average of month end total assets.

In 1984, net income as a percentage of average assets was 0.42%, a decline of 2 basis points from the previous year. Excluding Harris, the Bank's profitability would have been 0.43%.

Since 1982, the Bank's overall profitability has improved slightly but is still lower than the levels achieved in 1980 and 1981. The major reasons for this were slow loan growth and the continuing impact of the relatively high *loan loss experience* of previous years. Liquidity in 1984 was at an unusually high level which tended to limit growth in profitability.

The return on Domestic assets declined by 7 basis points from 0.46% in 1983 primarily due to narrower spreads. At 0.48%, the International operations return on assets improved by 6 basis points.

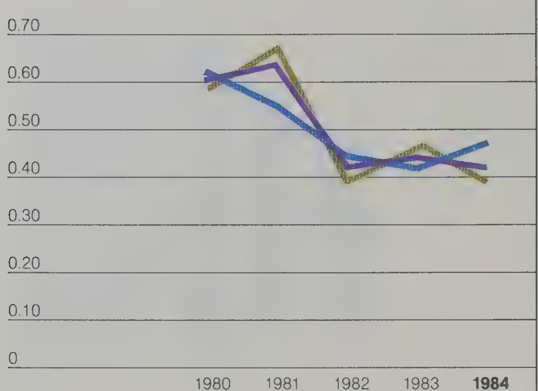
Net Interest Income

Net interest income is the difference between revenue earned on loans and securities including loan fees and the amount of interest paid on deposits and debentures.

The level of net interest income at $1,626 million increased by $44 million or 2.8% from the previous year. Higher average assets and the effect of the inclusion of Harris were factors in this improvement. This was partially offset by a decline in net interest margins in Domestic operations.

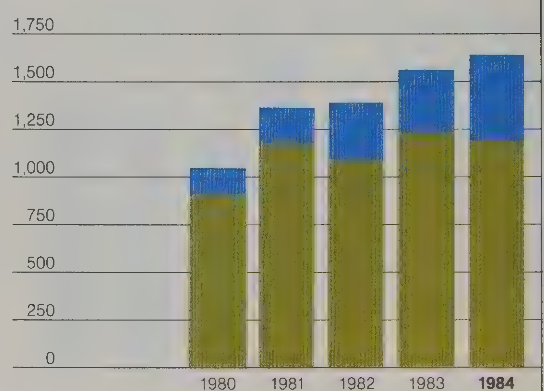
Domestic net interest income at $1,191 million was $53 million lower than 1983 levels, while International net interest income increased by $97 million to $435 million.

Return on Average Assets
(Percentage)



	1980	1981	1982	1983	1984
Domestic	0.59	0.67	0.39	0.46	**0.39**
International	0.62	0.54	0.44	0.42	**0.48**
Total Bank	0.60	0.64	0.41	0.44	**0.42**

Net Interest Income
($ in millions)



	1980	1981	1982	1983	1984
Domestic	905	1,170	1,091	1,244	**1,191**
International	125	188	279	338	**435**
Total Bank	1,030	1,358	1,370	1,582	**1,626**

Net Interest Margin

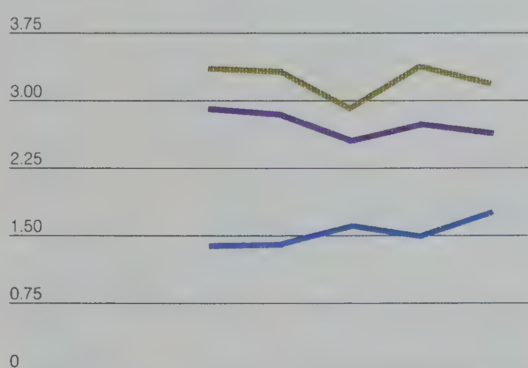
Net interest margin is defined as net interest income adjusted to a taxable equivalent basis divided by the average of month end total assets.

In 1984, the Bank's net interest margin was 2.63%, a decline of 10 basis points from the prior year. Excluding the effect of the Harris acquisition, net interest margin would have been 2.64%.

Several factors adversely impacted the Bank's spread in 1984. Firstly, spread on mortgage business narrowed as competition among mortgage lenders intensified. These margins were further impacted by customers' prepayments on outstanding mortgages. Because these mortgages were match-funded, the high funding cost of these mortgages had to be carried by the Bank even after prepayment of these loans. Secondly, the generally slow demand for credit limited opportunities for the Bank to utilize its excess liquidity in higher yielding loans. A favourable factor partially offsetting the above was a reduction in the cost of non-accrual loans. This improvement was despite a $15 million reduction in reported interest income attributable to Argentine risk loans, all of which were placed on a non-accrual basis in 1984. The reason for the improvement in 1984 was that fewer loans were transferred to a non-accrual basis, thereby reducing the impact of reversing against income interest previously accrued.

Domestic net interest margin declined by 20 basis points to 3.20% in 1984 while the International net interest margin increased from 1.50% in 1983 to 1.72% in 1984.

Net Interest Margin
Taxable Equivalent Basis
(As a % of average assets)



	1980	1981	1982	1983	**1984**
Domestic	3.35	3.33	2.92	3.40	**3.20**
International	1.41	1.42	1.56	1.50	**1.72**
Total Bank	2.90	2.88	2.54	2.73	**2.63**

Non-Accrual Loans

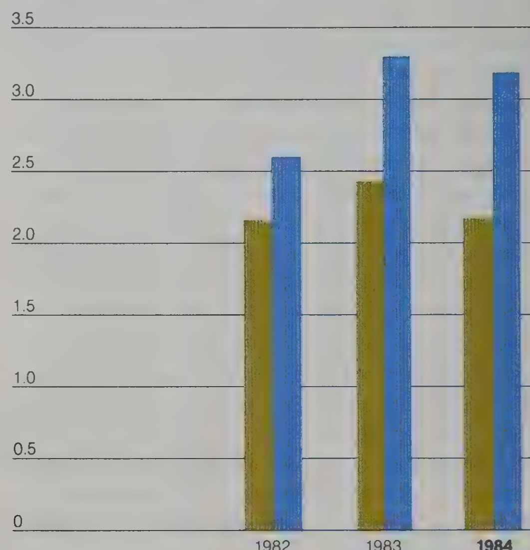
Non-accrual loans are stated net of *loan loss reservations* and include those loans and loan substitution securities on which interest payments are being taken into income only when received in cash rather than on an accrual basis.

The Bank policies applicable to non-accrual loans are described in detail in the section "Significant Accounting Policies and Practices" preceding the Notes to Consolidated Financial Statements.

As at October 31st, 1984, non-accrual loans net of *loan loss reservations* were $1,424 million, $162 million higher than the 1983 level. Domestic non-accrual loans declined from $736 million at year end 1983 to $640 million. International non-accrual loans increased from $526 million to $784 million. This increase is entirely attributable to the decision to place all Argentine risk loans, amounting to $348 million, on a non-accrual basis.

At year end, the percentage of non-accrual loans to eligible loans was 2.64%, a decrease of 9 basis points from 1983. Interest payments from non-accrual loans increased by $4 million to $167 million in 1984. This represented a yield of 11.4%, compared with last year's yield of 12.3%.

Non-Accrual Loans at Year End
(As a % of eligible loans)



	1982	1983	1984
Domestic	2.15	2.43	**2.17**
International	2.62	3.30	**3.20**
Total Bank	2.31	2.73	**2.64**
Non-Accrual Loans ($ in millions)			
Domestic	687	736	640
International	437	526	784
Total Bank	1,124	1,262	1,424
Interest Income on Non-Accrual Loans ($ in millions)			
Domestic	53	97	**72**
International	34	66	**95**
Total Bank	87	163	**167**

Loan Loss Experience and Provision for Loan Losses

Loan loss experience is the actual net new reservations made during the year less principal recoveries on loans previously written off. The amount of net new reservations is determined through a quarterly management review of the collectibility of individual loans. The *provision for loan losses* is the amount charged to income determined in accordance with a formula mandated by the Minister of Finance and involving the averaging of the *loan loss experience* over a five-year period. In effect, the difference between the actual *loan loss experience* and the *provision for loan losses* is charged or credited, as the case may be, to appropriation for contingencies.

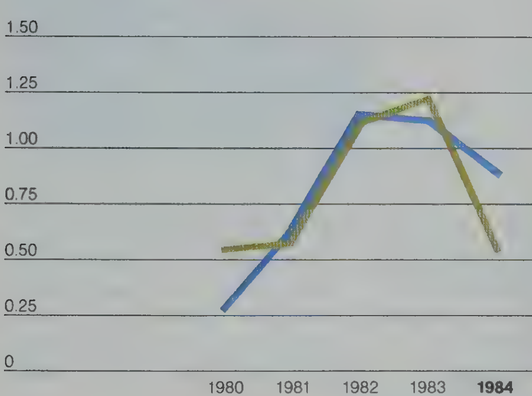
The Bank's *loan loss experience* in 1984 amounted to $365 million, a decrease of $186 million from the $551 million reported in 1983. This improvement over fiscal 1983 is the result of a combination of factors, including improvements in our lending practices, collection efforts and loan administration, as well as a better economic climate.

The ratio of *loan loss experience* to eligible loans in 1984 at 0.68% declined by 51 basis points from 1983. The Domestic ratio improved by 70 basis points to 0.53% in 1984. In Canada, all regions showed improvement with the exception of Alberta where recovery from depressed economic conditions has been slower in manifesting itself. Internationally, the ratio improved by 26 basis points to 0.86% in 1984.

Since the *provision for loan losses* is designed to average the *loan loss experience* over five years, it tends to delay the impact of changes in *loan loss experience* upon the charge to income. Thus, any change in actual *loan loss experience* will not be fully reflected in either the *provision for loan losses* or in reported earnings, except over an extended period of time.

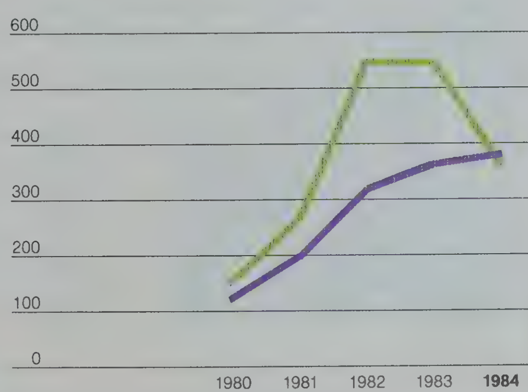
In 1984, the *provision for loan losses* amounted to $375 million compared with $361 million the previous year. The higher levels of *loan loss experience* of earlier years explains the 3.9% increase in the 1984 provision. As shown in the graph below, this year's *loan loss experience* is less than the *provision for loan losses* which is charged to income.

Loan Loss Experience
(As a % of eligible loans)



	1980	1981	1982	1983	1984
Domestic	0.54	0.58	1.13	1.23	**0.53**
International	0.27	0.64	1.14	1.12	**0.86**
Total Bank	0.46	0.61	1.13	1.19	**0.68**

Loan Loss Experience and Provision for Loan Losses
($ in millions)



	1980	1981	1982	1983	1984
Loan Loss Experience					
Domestic	127	181	360	373	**155**
International	27	87	190	178	**210**
Total Bank	154	268	550	551	**365**
Provision for Loan Losses					
Domestic	93	137	213	225	**205**
International	31	59	106	136	**170**
Total Bank	124	196	319	361	**375**

Other Operating Income

Other operating income includes all income other than interest income and those loan fees which are amortized to interest income.

Other operating income totalled $499 million for the year, an increase of $88 million or 21.5% over 1983. Harris accounted for $26 million or 29.5% of the total increase.

Revenue from service charges rose $20 million or 15.6% due largely to price increases to cover the rising costs of providing many Bank services. MasterCard merchant fees increased $12 million or 18.2% reflecting an increase in the volume of MasterCard transactions.

Administration fees on loans, guarantees and letters of credit totalled $87 million, which represents a $6 million decrease from 1983, caused principally by the slow loan demand.

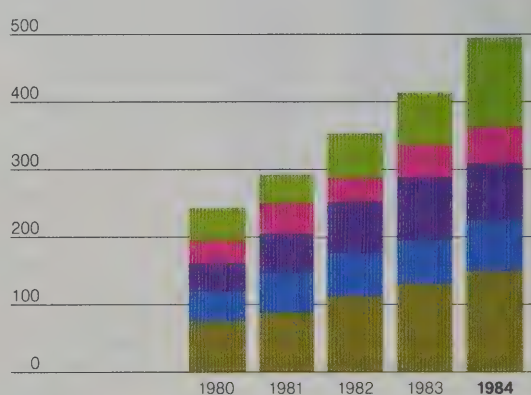
Foreign exchange revenues totalled $50 million, an increase of 8.7% over last year's results.

The remaining increase of $58 million was generated by a number of factors:

- Certain surplus properties were sold during the year and net gains from these sales are included in this category.
- In accordance with instructions of the Inspector General of Banks effective in 1984, foreign exchange gains and losses arising from the translation of equity in foreign branches and subsidiaries were charged directly to retained earnings. Prior to this year such translation gains and losses were charged to income. This resulted in a translation loss of $13 million in 1983, due in large part to the maxi-devaluation of the Brazilian currency.
- Increased revenue from the Bank's other non-credit services.

The above factors favourably affected both Domestic and International operations.

Other Operating Income
($ in millions)



	1980	1981	1982	1983	1984
Service charges	73	87	109	128	**148**
MasterCard fees	44	58	65	66	**78**
Loan fees	47	59	77	93	**87**
Foreign exchange	34	43	34	46	**50**
Other	39	46	66	78	**136**
Total Bank	237	293	351	411	**499**

Other Operating Income
(As a % of average assets)

	1980	1981	1982	1983	1984
Domestic	0.63	0.60	0.72	0.83	**0.95**
International	0.37	0.31	0.15	0.31	**0.43**
Total Bank	0.57	0.53	0.56	0.65	**0.75**

Non-Interest Expense

Non-interest expense consists of employee costs, premises and equipment costs and all other operating expenses.

In 1984, total non-interest expense was $1,384 million, an increase of 10.8% over 1983. The non-interest expense of Harris since the date of acquisition accounts for approximately half of this increase.

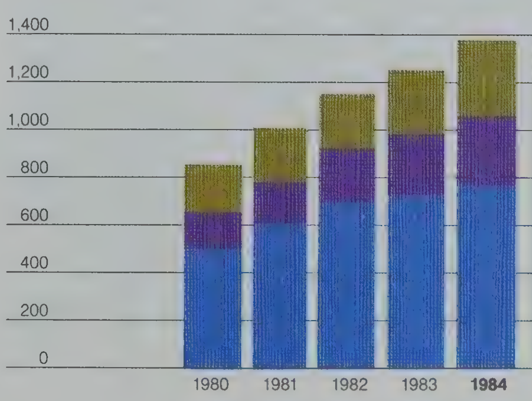
At October 31st, 1984, total complement was 33,598, a net increase of 4,473 over 1983, virtually all of which is accounted for by the inclusion of Harris employees. Employee expenses, including pensions and benefits, were higher by $50 million or 6.9% over 1983. Of this increase, $33 million is attributable to Harris. The remainder is primarily due to salary increases granted during the year.

Premises and equipment costs totalled $288 million, an increase of $31 million or 12.1% over 1983. Harris accounts for $9 million of this increase. Depreciation charges rose by 9.8%, with other property expenses explaining the balance of the annual increase.

Other expenses were $54 million or 20.4% higher than in 1983, of which Harris contributed one-third. The majority of the increase, excluding the effect of Harris, was due to travel, communications and stationery expenses.

As a percentage of average assets, the Bank's non-interest expense ratio increased from 1.96% in 1983 to 2.07% in 1984. The Domestic operations ratio increased from 2.75% in 1983 to 2.96% in 1984, which reflects in part the higher cost of operating the Canadian branch network. The International ratio increased by 0.15% to 0.67% caused principally by the inclusion of Harris' expenses since acquisition.

Non-Interest Expense
($ in millions)



	1980	1981	1982	1983	**1984**
Salaries and staff benefits	502	603	694	727	**777**
Premises and equipment	159	185	221	257	**288**
Other expenses	184	218	248	265	**319**
Total Bank	845	1,006	1,163	1,249	**1,384**

Non-Interest Expense
(As a % of average assets)

	1980	1981	1982	1983	**1984**
Domestic	2.43	2.24	2.39	2.75	**2.96**
International	0.58	0.54	0.49	0.52	**0.67**
Total Bank	2.04	1.83	1.85	1.96	**2.07**

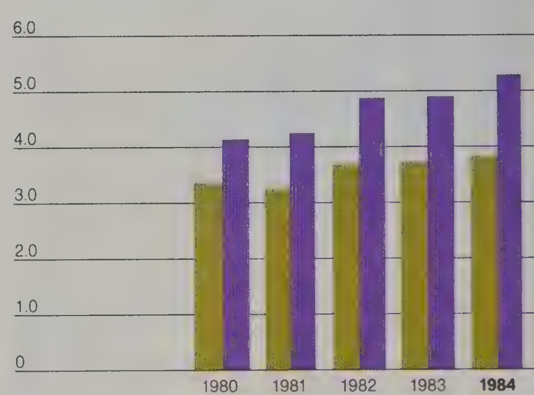
Capital Funds

The capital of the Bank comes from three sources. Firstly, shareholders' equity which comprises funds invested by shareholders and retained earnings. Secondly, reserves set aside as appropriations for contingencies. Together these form the Bank's Capital and Reserves. *Loan loss reservations* are not included in Capital and Reserves. Total capital funds comprise the capital and reserves and the third source, subordinated debt. The function of capital is to serve as protection for depositors and creditors of the Bank. Additionally, an adequate level of capital is required to support the Bank's business activities.

At year end, total capital and reserves were \$2.9 billion, an increase of \$558 million from a year ago. Total capital, reserves and subordinated debt were \$4.0 billion at October 31, 1984, \$895 million higher than the previous year end. During the year, the Bank expanded its capital base by \$403 million with the sale of \$275 million of Class A, Series 3 Preferred Shares which carry a fixed dividend for five years and thereafter a floating rate dividend based on the Bank's average Prime Rate. A further \$128 million was raised during the year through the Bank's Shareholder Dividend Reinvestment Plan, Share Purchase Plan and Stock Dividend Program. Over 68% of the dividends declared were reinvested in the Bank and more than 40% of shareholders participated in one or more of these plans in 1984. The balance of the increase in total capital and reserves of \$155 million is the net increase in retained earnings and appropriations for contingencies.

A twelve year U.S. \$250 million Series 9 floating rate debenture was sold in Europe in 1984 and explains the increase in the ratio of total capital funds to total year end assets. This ratio increased from 4.93% in 1983 to 5.24% in 1984.

Capital Ratios
(Percentage)



	1980	1981	1982	1983	1984
Ratio of total capital and reserves to total assets (%)	3.35	3.25	3.73	3.78	**3.85**
Ratio of total capital and reserves and subordinated debt to total assets (%)	4.16	4.30	4.90	4.93	**5.24**

Financial Highlights
For the Year Ended October 31
($ in millions except per common share amounts)

	1980	1981	1982	1983	1984
Earnings Information					
Net income	$ 247	$ 353	$ 257	$ 283	$ 283
Dividends					
Common shares	82	101	121	126	135
Preferred shares	—	9	33	34	53
Return on average assets	0.60%	0.64%	0.41%	0.44%	0.42%
Return on average common shareholders' equity	17.20%	19.94%	11.39%	12.63%	10.63%
Balance Sheet Information					
Assets	$47,547	$62,374	$62,027	$63,194	$76,491
Loans	33,754	43,759	44,082	41,546	47,929
Deposits	42,621	55,774	53,875	55,320	66,671
Capital and reserves	1,595	2,029	2,316	2,388	2,946
Total capital and reserves to total assets	3.35%	3.25%	3.73%	3.78%	3.85%
Common Share Information					
Number of common shares (000's)	54,751	56,299	62,553	65,383	70,498
Average number of common shares outstanding (000's) (1)	51,993	55,898	60,911	64,164	68,414
Number of common shareholders	55,515	58,455	68,102	74,481	98,280
Net income per common share					
Basic (2)	$ 4.75	$ 6.16	$ 3.70	$ 3.87	$ 3.37
Fully diluted (3)	—	6.00	3.57	3.72	3.30
Dividends declared per common share	1.54	1.80	1.96	1.96	1.96
Share Price (4)					
High	31.25	34.75	27.75	33.625	28.375
Low	21.50	22.625	16.75	23.50	21.375
Close	30.00	24.875	24.00	27.125	23.625
Book value (5)	27.29	30.86	30.29	30.52	31.51
Other Information					
Number of branches	1,296	1,322	1,259	1,218	1,222
Number of employees (6)	28,897	30,488	29,866	29,125	33,598
Number of automated teller machines	104	109	215	324	470

Notes to Financial Highlights:

(1) The average represents the daily weighted average of equivalent fully-paid common shares outstanding.

(2) Represents net income for the period less preferred dividends declared divided by the average number of common shares outstanding.

(3) Represents net income for the period and imputed earnings on the exercise of the Class A Preferred Shares—Series 2 First Warrants divided by the sum of the average number of common shares outstanding, the number of common shares that all outstanding Class A Convertible Preferred Shares—Series 1 could have been converted to as at April 30, 1981 (the date of issue) and the number of common shares that all outstanding Class A Preferred Shares—Series 2 could have been converted to as at December 15, 1981 (the date of issue) with the exercise of the First Warrants.

(4) High and low prices are for common shares traded during the fiscal year. Closing price is on the last trading day of October.

(5) Common shareholders' equity plus appropriations for contingencies less imputed income taxes on tax allowable appropriations for contingencies divided by the number of common shares outstanding at October 31.

(6) Employee count on a full time equivalent basis.

Consolidated Statement of Assets and Liabilities
As at October 31
($ in millions)

Assets	1980	1981	1982	1983	1984
Cash resources	$ 6,402	$ 9,961	$ 7,539	$ 8,317	$13,276
Securities	4,552	5,199	5,420	8,444	8,835
Loans net of reservations for losses	33,754	43,759	44,082	41,546	47,929
Customers' liability under acceptances	1,672	1,629	3,050	3,065	3,612
Land, buildings and equipment	362	479	619	707	1,110
Other assets	805	1,347	1,317	1,115	1,729
Total Assets	$47,547	$62,374	$62,027	$63,194	**$76,491**

Liabilities, Capital and Reserves	1980	1981	1982	1983	1984
Deposits					
Payable on demand	$ 5,142	$ 5,272	$ 4,443	$ 5,273	$ 6,975
Payable after notice	10,310	13,588	13,950	15,058	16,037
Payable on a fixed date	27,169	36,914	35,482	34,989	43,659
	42,621	55,774	53,875	55,320	66,671
Acceptances	1,673	1,629	3,050	3,065	3,612
Liabilities of subsidiaries, other than deposits	427	741	733	640	634
Other liabilities	792	1,492	1,272	998	1,508
Minority interests in subsidiaries	55	55	55	55	55
Bank debentures	384	654	726	728	1,065
Capital and Reserves					
Appropriations for contingencies	175	203	216	193	325
Shareholders' equity					
Capital stock	111	313	500	506	791
Contributed surplus	460	476	620	690	808
Retained earnings	849	1,037	980	999	1,022
Total Capital and Reserves	1,595	2,029	2,316	2,388	2,946
Total Liabilities, Capital and Reserves	$47,547	$62,374	$62,027	$63,194	**$76,491**

Consolidated Statement of Appropriations for Contingencies
For the Year Ended October 31
($ in millions)

	1980	1981	1982	1983	1984
Beginning of Year					
Tax allowable	$119	$154	$181	$ 93	$ 35
Tax paid	15	21	22	123	158
Total	134	175	203	216	193
Changes During Year					
Loan loss experience for the year	(154)	(268)	(550)	(551)	(365)
Provision for loan losses based on five-year average loan loss experience	124	196	319	361	375
Transfer from retained earnings	71	100	244	167	122
Net Change During Year	41	28	13	(23)	132
End of Year					
Tax allowable	154	181	93	35	155
Tax paid	21	22	123	158	170
Total	$175	$203	$216	$193	$325

Consolidated Statement of Income

For the Year Ended October 31
($ in millions)

	1980	1981	1982	1983	1984
Interest, Dividend and Fee Income					
Loans	$4,235	$7,028	$7,308	$5,588	$5,768
Lease financing	38	38	46	73	67
Securities	432	602	635	613	852
Deposits with banks	428	823	935	747	901
	5,133	8,491	8,924	7,021	7,588
Interest Expense					
Deposits	4,011	7,006	7,361	5,270	5,770
Bank debentures	46	68	113	89	111
Liabilities other than deposits	46	59	80	80	81
	4,103	7,133	7,554	5,439	5,962
Net Interest Income	1,030	1,358	1,370	1,582	1,626
Provision for loan losses	124	196	319	361	375
Net Interest Income After Provision for Loan Losses	906	1,162	1,051	1,221	1,251
Other operating income	237	293	351	411	499
Net Interest and Other Income	1,143	1,455	1,402	1,632	1,750
Non-Interest Expense					
Salaries	458	540	631	644	707
Pension and other staff benefits	44	63	63	83	70
Premises and equipment	159	185	221	257	288
Other expenses	184	218	248	265	319
	845	1,006	1,163	1,249	1,384
Income Before Provision for Income Taxes	298	449	239	383	366
Provision for (recovery of) income taxes	49	92	(22)	96	79
Income Before Minority Interests in Earnings of Subsidiaries	249	357	261	287	287
Minority interests in earnings of subsidiaries	2	4	4	4	4
Net Income	$ 247	$ 353	$ 257	$ 283	$ 283

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31
($ in millions)

	1980	1981	1982	1983	1984
Class A Preferred Shares					
Balance at beginning of year	$ —	$ —	$ 200	$ 375	$ 375
Increases during the year	—	200	175	—	275
Balance at October 31	—	200	375	375	650
Common Shares					
Balance at beginning of year	98	111	113	125	131
Increases during the year	13	2	12	6	10
Balance at October 31	111	113	125	131	141
Contributed Surplus					
Balance at beginning of year	315	460	476	620	690
Capital stock issues	145	16	144	70	118
Balance at October 31	460	476	620	690	808
Retained Earnings					
Balance at beginning of year	719	849	1,037	980	999
Net income for the year	247	353	257	283	283
Dividends—Common	(82)	(101)	(121)	(126)	(135)
—Preferred	—	(9)	(33)	(34)	(53)
Direct costs of share issue net of related tax	(1)	(4)	(4)	—	(4)
Net after tax gain on translation of net investment in foreign operations	—	—	—	—	10
Prior period adjustments	—	—	16	—	(14)
Transfer to appropriations for contingencies	(71)	(100)	(244)	(167)	(122)
Income taxes related to the above transfer	37	49	72	63	58
Balance at October 31	849	1,037	980	999	1,022
Total Shareholders' Equity	$1,420	$1,826	$2,100	$2,195	$2,621

Quarterly Financial Data
($ in millions except per share amounts)

	1983 Quarter Ended				1984 Quarter Ended			
Consolidated Statement of Income	January 31	April 30	July 31	October 31	January 31	April 30	July 31	October 31
Interest, dividend and fee income	1,872.8	1,728.3	1,685.8	1,734.1	1,742.9	1,704.8	1,900.2	2,240.4
Interest expense	1,472.5	1,338.5	1,288.8	1,339.6	1,332.2	1,326.7	1,502.1	1,800.9
Net interest income	400.3	389.8	397.0	394.5	410.7	378.1	398.1	439.5
Provision for loan losses	109.5	101.7	83.9	65.7	97.4	95.5	95.8	86.3
Net interest income after provision for loan losses	290.8	288.1	313.1	328.8	313.3	282.6	302.3	353.2
Other operating income	102.6	95.9	101.8	110.8	111.9	143.5	107.8	136.1
Net interest and other income	393.4	384.0	414.9	439.6	425.2	426.1	410.1	489.3
Non-interest expense	303.8	303.4	313.4	328.5	321.2	319.9	336.1	407.0
Income before provision for income taxes	89.6	80.6	101.5	111.1	104.0	106.2	74.0	82.3
Provision for income taxes	14.0	17.3	23.2	41.3	26.3	34.4	9.4	8.6
Income before minority interests in earnings of subsidiaries	75.6	63.3	78.3	69.8	77.7	71.8	64.6	73.7
Minority interests in earnings of subsidiaries	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Net Income	74.4	62.2	77.2	68.7	76.6	70.7	63.5	72.6
Average Assets	62,966	64,223	63,664	63,845	63,693	63,918	66,042	71,790
Common Share Information								
Average number of common shares outstanding (000's)	63,093	63,999	64,540	65,026	66,543	68,291	68,980	69,844
Net income per common share								
Basic	$1.04	$0.84	$1.07	$0.92	$1.02	$0.81	$0.71	$0.83
Fully diluted	1.00	0.82	1.01	0.89	0.98	0.79	0.71	0.82
Dividends declared per common share	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49
Dividends Declared								
Common shares	31,243	31,503	31,702	32,038	33,300	33,582	33,965	34,544
Preferred shares	8,507	8,508	8,507	8,507	8,507	15,376	14,350	14,351

Capital Stock

At October 31, 1984, the Bank had four types of shares outstanding: Convertible Class A Preferred Shares Series 1, Class A Preferred Shares Series 2, Class A Preferred Shares Series 3, and common shares. The Class A Preferred Shares Series 1 pay cumulative preferred dividends at an annual rate of $2.85 per share and are convertible at the option of the holder at any time prior to May 26, 1991 on a one-for-one basis (subject to adjustment for certain events). The Class A Preferred Shares Series 2 pay cumulative preferred dividends at an annual rate of $2.50 per share and entitle holders of record on June 14, 1985 to receive one common share purchase warrant entitling them to purchase one common share at $33.00 from June 17, 1985 to December 15, 1988. The Class A Preferred Shares Series 3 pay cumulative preferred dividends at an annual rate of $2.125 until February 23, 1989, thereafter, the quarterly dividend shall be the greater of $0.53125 per share or an amount determined by applying one quarter of 75% of the Bank's average Prime Rate for stated periods to $25.

Listing of Stock

The common shares of the Bank are listed on the Montreal, Toronto, Winnipeg, Alberta and Vancouver stock exchanges in Canada and The Stock Exchange, London, England. The shares list under the following stock symbols on Canadian exchanges: "BMO" for the common stock, "BMOU" for the Convertible Class A Preferred Shares Series 1, "BMOX" for the Class A Preferred Shares Series 2, and "BMOC" for the Class A Preferred Shares Series 3.

Stock Prices

The following table sets forth the high and low closing sale prices on the Toronto Stock Exchange of the common shares of the Bank for the periods indicated:

Year	High	Low	Volume
1980	$34.750	$22.500	8,458,828
1981	33.375	23.500	7,198,981
1982	26.750	17.000	10,990,400
1983	33.625	24.750	12,373,774
1984 Jan. 1-Oct. 31	28.375	21.375	13,111,805

Transfer Agent and Registrar

The principal transfer agent for both the common and preferred shares of the Bank is The Royal Trust Company at its principal offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. The Royal Trust Company also acts as registrar for these shares.

Dividends

Dividends paid on the common shares of the Bank over the past five years are shown in the following table:

	Year ended October 31				
	1980	1981	1982	1983	1984
Dividends paid per common share	$1.50	$1.72	$1.95	$1.96	$1.96

Dividend Options

Shareholders of Bank of Montreal may choose from several dividend options including:

- Shareholder Dividend Reinvestment and Share Purchase Plan
- Stock Dividend Program
- Electronic Funds Transfer Service

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common shares or Class A Preferred Shares Series 1, Series 2 or Series 3, resident in Canada, to reinvest cash dividends in new common shares of the Bank at a purchase price of 95% of the average market price, without the payment of any commissions or service charges. Shareholders may also purchase additional common shares of the Bank at 100% of the average market price by making optional cash payments of up to $20,000 per annum, whether or not dividends on shares are being reinvested.

Stock Dividend Program

The Stock Dividend Program provides a means for holders of record of at least 100 common shares or 100 Class A Preferred Shares Series 1, Series 2 or Series 3 to acquire common shares of the Bank at 95% of the average market price by electing that dividends be paid by the issue of common shares of the Bank having a value substantially equivalent to the cash dividend otherwise payable.

Electronic Funds Transfer Service

Shareholders not wishing to participate in the Shareholder Dividend Reinvestment and Share Purchase Plan or the Stock Dividend Program may choose to have dividends deposited directly to an account in any financial institution which provides electronic funds transfer facilities.

Details of the dividend options and enrolment forms may be obtained by contacting The Royal Trust Company, Corporate Trust Division, 630 Dorchester Boulevard West, Montreal, Quebec H3B 1S6.

Restraints on Bank Shares Under the 1980 Bank Act

The Bank Act contains restrictions on the ownership of shares of the Bank. These restrictions limit ownership of shares by all non-residents to a maximum of 25% of any class of shares. These restrictions also do not allow any individual to own more than 10% of any class of shares and prohibit ownership of the Bank's shares by Canadian or foreign governments.

Distribution of Shareholders

The following table indicates the distribution of common shareholders by country of residence at October 31, 1984:

	Shareholders
Canada	98.3%
United States	0.7%
Other	1.0%
	100.0%

Copies of Annual Report

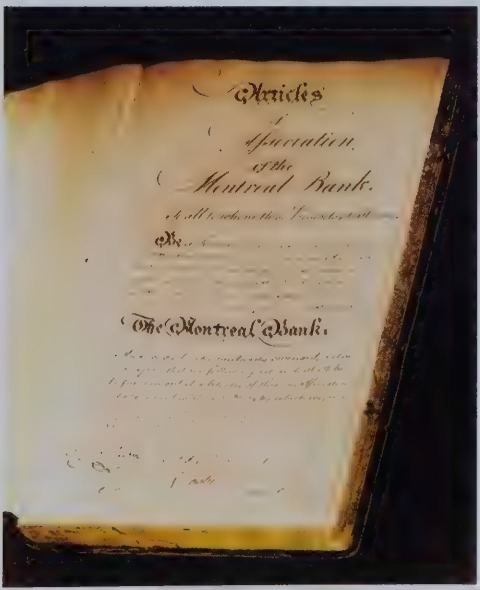
Additional copies of this Annual Report may be obtained by contacting the Bank's Public Affairs Department, P.O. Box 6002, Place d'Armes, Montreal, Quebec H2Y 3S8, or any Division headquarters in Canada.

(See listing at the back of this report.)

The Bank is proud of its heritage as Canada's first bank and its role as a pioneer in the development of Canada's banking both at home and abroad.

The Bank's directors, with diverse backgrounds and experience from Canada and around the world, exercise overall policy and management responsibility and review the Bank's global operations. The Chief Executive Officer ensures that the policies and directives of the Board are carried out.

Executives in the line banking groups run the day-to-day operations of the Bank under the direction of the President and Chief Operating Officer, delivering financial services through a worldwide network of branches, representative offices and subsidiaries.



MONTREAL, 1817
The Articles of Association of Canada's first bank were signed 50 years before Confederation in 1867. John Richardson, known as the Father of Canadian Banking, was one of nine partners who founded the Bank of Montreal, which served as the model for the country's banking system. The Bank was granted a Royal Charter in 1822.

DIRECTORS

W.D. Mulholland, LL.D.
Chairman of the Board

Grant L. Reuber, Ph.D.
President

William E. Bradford, F.C.G.A.
Deputy Chairman

Stanley M. Davison
Vice-Chairman

Jack H. Warren, O.C.
Vice-Chairman

Charles F. Baird, LL.D.
Toronto
Chairman and Chief Executive Officer
Inco Limited

Peter J.G. Bentley, O.C.
Vancouver
President and Chief Executive Officer
Canfor Corporation

Claire P. Bertrand
Montreal
Company Director

Robert A. Boyd, O.C.
Montreal
Vice-President
Gendron Lefebvre Inc.

Charles R. Bronfman, O.C.
Montreal
Deputy Chairman
Chairman,
Executive Committee
The Seagram Company Ltd.

The Hon. Sidney L. Buckwold, LL.D
Saskatoon
President
Buckwold's Ltd.

F.S. Burbidge
Montreal
Chairman and Chief Executive Officer
Canadian Pacific Limited

Pierre Côté, C.M.
Quebec
Chairman of the Board
Celanese Canada Inc.

H. Roy Crabtree, LLD., D.C.L.
Montreal
Chairman of the Board
Wabasso Inc.

C. William Daniel, O.C., LL.D.
Toronto
President and Chief Executive Officer
Shell Canada Limited

Nathanael V. Davis, D.Sc.
Osterville, Mass.
Chairman
Alcan Aluminium Limited

Graham R. Dawson
Vancouver
President
G.R. Dawson Holdings Limited

Louis A. Desrochers, Q.C.
Edmonton
Partner
Messrs. McCuaig Desrochers

John H. Devlin
Toronto
Chairman
Rothmans of Pall Mall Canada Limited

A. John Ellis, O.C.
Vancouver
Chairman
Canadian Advisory Board
Marsh & McLennan Limited

Thomas M. Galt
Toronto
Chairman and Chief Executive Officer
Sun Life Assurance Company of Canada

The Viscount Garnock
London, England
Chairman
Crossley Karastan Carpets Limited

J. Peter Gordon, O.C., LL.D.
Toronto
Chairman
Stelco Inc.

Donald S. Harvie, O.C.
Calgary
Chairman
The Devonian Foundation

Bruce I. Howe, LL.D.
Vancouver
President and Chief Executive Officer
British Columbia Resources Investment Corporation

Richard M. Ivey, Q.C., LL.D.
London, Ont.
Chairman of the Board
Allpak Limited

Betty Kennedy, O.C., LL.D.
Toronto
Public Affairs Editor
CFRB Limited

Walther Leisler Kiep
Stuttgart
Federal Republic of Germany
Managing General Partner
Gradmann & Holler

Merv Leitch, Q.C.
Calgary
Partner
Macleod Dixon

J. Blair MacAulay
Toronto
Partner
Fraser & Beatty

Fred H. McNeil, LL.D.
Calgary
Chairman and Chief Executive Officer
Dome Canada Limited
Former Chairman and Chief Executive Officer
Bank of Montreal

Ronald N. Mannix
Calgary
Chairman
Manalta Coal Ltd.

Jerry E.A. Nickerson
North Sydney, N.S.
Chairman
H.B. Nickerson & Sons Ltd.

Sir David Nicolson, Kt., M.E.P.
London, England
Chairman
Rothmans International Plc.

Lucien G. Rolland, O.C. D.C.Sc.
Montreal
Chairman and Chief Executive Officer
Rolland inc.

George H. Sellers
Winnipeg
President
Riverwood Investments Ltd.

William M. Sobey
Stellarton, N.S.
Chairman
Sobeys Stores Limited

James C. Thackray
Toronto
Chairman
Bell Canada

Lorne C. Webster
Montreal
Chairman and Chief Executive Officer
Prenor Group Ltd.

B. Kenneth West
Chicago
Chairman and Chief Executive Officer
Harris Bankcorp, Inc.

THE EXECUTIVE COMMITTEE

Chairman: William D. Mulholland

Vice-Chairman: Grant L. Reuber

Charles F. Baird William E. Bradford Hon. Sidney L. Buckwold
F.S. Burbidge H. Roy Crabtree C. William Daniel Nathanael V. Davis
Louis A. Desrochers J. Peter Gordon Fred H. McNeil
Lucien G. Rolland James C. Thackray

THE AUDIT COMMITTEE

Chairman: H. Roy Crabtree

Robert A. Boyd Charles R. Bronfman Pierre Côté Lucien G. Rolland
Lorne C. Webster

THE MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

Chairman: J. Peter Gordon

Charles F. Baird F.S. Burbidge Pierre Côté Nathanael V. Davis
Louis A. Desrochers Fred H. McNeil William D. Mulholland
James C. Thackray

THE DONATIONS COMMITTEE

Chairman: Betty Kennedy

Peter J.G. Bentley Claire P. Bertrand John H. Devlin Donald S. Harvie
William M. Sobey Jack H. Warren

THE PENSION ADVISORY COMMITTEE

Chairman: Grant L. Reuber

Thomas M. Galt Donald S. Harvie J. Blair MacAulay Lorne C. Webster

EXECUTIVE OFFICERS

W.D. Mulholland
Chairman and
Chief Executive Officer

G.L. Reuber
President and
Chief Operating Officer

W.E. Bradford, F.C.G.A.
Deputy Chairman

S.M. Davison
Vice-Chairman

J.H. Warren
Vice-Chairman

W.B. Bateman
Executive Vice-President
Corporate and
Government Banking

G.E. Neal
Executive Vice-President
and Treasurer

D.G. Parker
Executive Vice-President
Canadian Commercial
Banking

M.W. Barrett
Executive Vice-President
Domestic Banking

G.W. Hopkins
Executive Vice-President
Operations and Systems

K.O. Dorricott, F.C.A.
Senior Vice-President
and Chief Auditor

Colin McGregor
Vice-President
and Chief Accountant

Robert Muir
Vice-President
and Secretary

MONTREAL, 1819
The first building constructed in Canada for banking was opened by the Bank of Montreal two years after its founding. Today's Head Office and adjacent Montreal Main Branch stand on the same Place d'Armes site.

CORPORATE STAFF

Executive Vice-President:	J.A. Whitney
Senior Vice-Presidents:	Dr. L.C. Atkinson M.L. Cully L.F. Darlington Dr. P.G. Kirkham P.A. Manson L.R. O'Hagan R.B. Wells, C.A.
Vice-Presidents:	D.D. Alexander Franz Ballmann N.J.F. Conway R.F. Dolan D.A. Fry B.K. Gilmour A.G. Grant W.D. Marshall S.I. McLeod J.L. Meadows R.K. Moorthy G.T. Robertson K.D. Robson D.E. Smee C.E. Stait-Gardner M.J. White, C.A.

BANK OF MONTREAL REALTY INC.

President:	J.W. McCool
Vice-President:	R.W. Saddington

TORONTO, 1846
When the Bank of Montreal opened the settlement's first bank in 1818, the few hundred residents of "Muddy York" were conducting most financial transactions by barter. York was incorporated as Toronto in 1834 and was described by Charles Dickens after a visit as "full of life and motion, bustle, business and improvement." In 1846, when the city had grown to 20,000 people, the Bank completed this building at Front and Yonge streets.

Worldwide

Corporate Banking
Government Banking
Correspondent Banking
Merchant Banking

CORPORATE AND GOVERNMENT BANKING GROUP

Executive Vice-President and Group Executive:	W.B. Bateman
Executive Vice-Presidents:	K.E. Palmer C.G. Stratton
Senior Vice-Presidents:	E.L. Mercaldo Donald Munford M.R.P. Rayfield T.J. Wacker
	J.R. Bradlow C.F. Davis G.W.G. Day J.G. Day J.-A. Farstad C.E. Garin J.D. Gibson D.W. Gough R.G. Lammers N.R. Macmillan A.C. Marple N.F. Potter J.L. Richard G.R. Rourke Sanjiv Tandon H.-M. Tucher P.D. Waters
Vice-Presidents:	R.E. Barnes P.A. Blanar J.W. Bolus Y.J.P. Bourdeau M.J. Butler T.D. Campbell S.K. Christensen P.C. Conradi E.J. Dato W.T.S. Fraser H.B. Garbe J.C. Gorman T.T. Gow J.A. Graham M.A. Graham Dr. P.H. Grimley G.R. Hammond S.B. Hean I.E. Henke A.R. Hibben J.A.N. Jarry D.H.D. Johnston P.M. Jurist C.R. Kremp B.N. Loomer M.B. Lowe D.A. Lunney D.M. Luyt T.C. MacMillan M.J.S. Macnab J.G. McKechnie D.P. McNaught W.H. Moise G.D. Nash R.J. Nicholls J.W. Robertson A.W. Rogacki R.G. Rogers M.R. Rowe S.H. Sallows G.W. Scalf W.R. Seatle Allan Taylor F.M. Thomson D.W. Tutt B.H. Walters F.A. Whittaker R.J.H. Willingham D.F. Willis J.C. Wilson E.B. Wright T.C. Wright A.S. Yankovich

LONDON, 1818
The Bank was the first Canadian financial institution to open an office in London, paying £900 per year for premises (left) on historic Lombard Street, a financial centre since the 13th Century. The Bank moved to Threadneedle Street in 1906 and to Queen Victoria street in 1983.

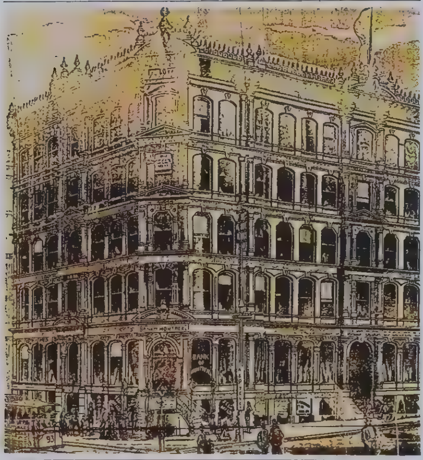
Worldwide

Money Market Dealing
Foreign Exchange Dealing
Bond Dealing
Securities Services

Capital Funding
Government Bond Underwriting *(Canada only)*
International Operations

TREASURY GROUP

Executive Vice-President and Treasurer:	G.E. Neal
Senior Vice-Presidents:	J.S. Chisholm A.G. McNally
	H.G. Ackstein C.E. Bartliff F.A. Comper E.T. Little
Vice-Presidents:	J.H.W. Brewer B.W. Broad R.E. Burton K.R. Bushell B.M. Davenport T.J. Guiheen G.M. Hydon R.T. Kazuta B.R. Leader A.G. Lodge A.W.B. Mendels P.G. Munro E.J. Muszynski A.D.C. Mutch R.K. Park B.D. Watters A.M.S. White, F.C.A. P.S. Wilson R.J. Williams



CHICAGO, 1872
The Bank was the main tenant of the Major Block building on LaSalle and Madison following destruction of its premises in the Great Fire of Chicago in 1871. A reference book of the time, The Land Owner, reported that "the Bank of Montreal is one of the most reliable banking institutions in the country...and for the year ending April 1878, shows a highly prosperous condition of affairs."

CANADIAN COMMERCIAL BANKING GROUP

Executive Vice-President and Group Executive:	D.G. Parker
Senior Vice-Presidents:	J.J. Byrnes
	B.C. Barth R.M. Forster J.A. Horton D.J. Kavanagh Simon Kouwenhoven J.A.E. Morel
Vice-Presidents:	J.E. Archbold Byron Bellamy J.P.Y.E. Bouchard W.D. Brash J.G.L. Carrier W.F. Cummings K.L. Dawson J.L. Demers H.F. Dooyeweerd A.N. Dubbeldam R.S. Gammon F.R.G. Hardy J.F.D. Haskell W.W. Holmes W.G. Jestley Martin Lacey R.M.J. Leslie D.K. MacMillan R.G. McLean H.K. Munro R.J. Normand D.P. Nowlan T.W.S. Pope Deanna Rosenswig J.G. Savard R.J. Shore R.J. Stranks K.J. Summers C.D.J. Troutman L.M. Turgeon P.S. Vale P.A.E.J. Van der Elst L.H.S. Zorn

WINNIPEG, 1877
The Bank of Montreal opened the first bank branch west of the Great Lakes next to a Hudson's Bay Company trading post. Mail arrived weekly in summer via the Red River and two telephones —among the first in the world —were installed that year. The first railway connection was made one year later.

DOMESTIC BANKING GROUP

Executive Vice-President and Group Executive:	M.W. Barrett
Senior Vice-Presidents:	A.E. Bates
	R.H. Call R.A. Franklin Pierre MacDonald A.R. White A.N. Tait
Vice-Presidents:	P.J.H. Bacon J.C.P. Beauchamp J.L.J.F. Beaudoin D.F. Clark F.G. Hacquoil G.T. Hicking C.J. Irwin J.R.G. Jarry J.W. Kirk D.E. Kriekle J.M. Kyle Gordon MacAskill J.D. McIlquham D.L. Moore M.R. Mourton L.T. Peddle H.G. Rowe W.J. Speers D.J. Stojsic G.C. Strachan

BANK OF MONTREAL MORTGAGE CORPORATION

President:	T.R. Alton
Vice-President:	H.A. Erian

REGINA, 1882
The first bank west of Winnipeg was opened by the Bank of Montreal in Pile of Bones, capital of the North West Territory and headquarters of the Royal North West Mounted Police. Renamed Regina in honour of Queen Victoria, it remained the capital city when the province of Saskatchewan was formed in 1905.

Directory of Major Domestic Offices, Foreign Branches and Representative Offices, and Domestic and Foreign Subsidiaries

CANADA

Executive Offices
Office of the Chairman

MONTREAL
P.O. Box 6002
Place d'Armes
Montreal, Quebec
H2Y 3S8
Telex: 055-60513 MYBANK MTL
Tel: (514) 877-7110

TORONTO
1 First Canadian Place
Toronto, Ontario
M5X 1A1
Telex: 065-24041 MYBANK TOR
Tel: (416) 867-5000

CALGARY
1 First Canadian Centre
Calgary, Alberta
T2P 3N9
Telex: 03-822827 MYBANK CGY
Tel: (403) 234-3000

Group Headquarters

CORPORATE AND GOVERNMENT BANKING GROUP
W.B. Bateman
Executive Vice-President and Group Executive

TREASURY GROUP
G.E. Neal
Executive Vice-President and Treasurer

1 First Canadian Place
Toronto, Ontario
M5X 1A1
Telex: 065-24041 MYBANK TOR
Tel: (416) 867-5000

DOMESTIC BANKING GROUP
M.W. Barrett
Executive Vice-President and Group Executive

CANADIAN COMMERCIAL BANKING GROUP
D.G. Parker
Executive Vice-President and Group Executive

Bank of Montreal Tower
55 Bloor Street W.
Toronto, Ontario
Telex: 065-24041 MYBANK TOR
Tel: (416) 927-7772

Division, Regional and District Offices

SAINT JOHN
CANADIAN COMMERCIAL BANKING
J.E. Archbold
Vice-President
Brunswick House
44 Prince William Street
Saint John, New Brunswick
E2L 2A9
Telex: 014-47219 MYBANK SJ
Tel: (506) 632-0200

HALIFAX
CANADIAN COMMERCIAL BANKING
J.F.D. Haskell
Vice-President

DOMESTIC BANKING
Gordon MacAskill
Vice-President

REGIONAL TREASURY DESK
INTERNATIONAL BANKING SERVICE CENTRE
Bank of Montreal Tower
5151 George Street
Halifax, Nova Scotia
B3J 3C4
Telex: 019-22542 SVP BOFM HFX
Canadian Commercial Banking
Tel: (902) 421-3402
Domestic Banking
Tel: (902) 421-3407
Treasury Desk:
Telex: 019-23574 BKMTLFOREX HFX
Tel: (902) 425-8110
International Banking Service Centre:
Telex: 019-23574 BKMTLFOREX HFX
Tel: (902) 425-8150

QUEBEC CITY
CANADIAN COMMERCIAL BANKING
M.L. Turgeon
Vice-President

DOMESTIC BANKING
P.J.C. Beauchamp
Vice-President

800 Place d'Youville
Quebec City, Quebec
G1R 3P4
Telex: 051-2241 MYBANK QBC
Tel: (418) 692-1850

MONTREAL
CANADIAN COMMERCIAL BANKING
EASTERN DIVISION
J.A. Horton
Senior Vice-President

DOMESTIC BANKING
EASTERN REGION
Pierre MacDonald
Senior Vice-President

CORPORATE AND GOVERNMENT BANKING
G.R. Rourke
Senior Vice-President

REGIONAL TREASURY DESK
P.O. Box 6002
Place d'Armes
Montreal, Quebec
H2Y 3S8
Telex: 055-60513 MYBANK MTL
Foreign Exchange
Telex: 055-61021 REALFOREX MTL
Tel: (514) 877-7110

INTERNATIONAL BANKING SERVICE CENTRE
288, rue St-Jacques
Montreal, Quebec
H2Y 1N1
Telex: 055-60513 MYBANK MTL
Tel: (514) 877-7110

OTTAWA
CANADIAN COMMERCIAL BANKING
J.L. Demers
Vice-President

99 Bank Street
Ottawa, Ontario
K1P 6B9
Telex: 043-3260 HOCHELAGA OTT
Tel: (613) 566-3461

TORONTO

CORPORATE AND GOVERNMENT BANKING
J.D. Gibson
Senior Vice-President

MAIN TREASURY DESK

INTERNATIONAL BANKING SERVICE CENTRE

1 First Canadian Place
Toronto, Ontario
M5X 1A1
Telex: 065-24041 MYBANK TOR
Tel: (416) 867-5000

TREASURY TRADING
Telex: 062-2735 MONTFOREX TOR

Trading Department:
Eurocurrency International
Telex: 062-17774 MONTOR FX
Tel: (416) 867-4651

Foreign Exchange International
Telex: 062-17788 MONTOR FX
Tel: (416) 867-5095

Domestic Money Management
Telex: 062-2791 TRESEC TOR
062-9443 TRESEC TOR
Tel: (416) 867-7830

Domestic Bond Dept.
Telex: As per Domestic Money Management
Tel: (416) 867-5301

CANADIAN COMMERCIAL BANKING
CENTRAL DIVISION
R.M. Forster
Senior Vice-President

DOMESTIC BANKING
CENTRAL REGION
A.R. White
Senior Vice-President

Bank of Montreal Tower
55 Bloor Street W.
Toronto, Ontario
M5W 3N5
Telex: 065-28192 MYBNKCS BMTTO
Tel: (416) 927-7772

HAMILTON

CANADIAN COMMERCIAL BANKING
H.K. Munro
Vice-President

1 James Street N.
Hamilton, Ontario
L8N 3H7
Telex: 061-8363 MYBANK HAM
Tel: (416) 526-2306

KINGSTON

CANADIAN COMMERCIAL BANKING
W.F. Cummings
Vice-President

259 King Street E.
Kingston, Ontario
K7L 5J8
Tel: (613) 544-1301

KITCHENER

CANADIAN COMMERCIAL BANKING
K.J. Summers
Vice-President

Canada Life Square
235 King Street E.
Kitchener, Ontario
N2G 4N5
Tel: (519) 885-9218

LONDON

CANADIAN COMMERCIAL BANKING
J.A.E. Morel
Senior Vice-President

Northern Life Tower
380 Wellington Street
London, Ontario
N6A 5H1
Telex: 064-7109 W DIV ONT LDN
Tel: (519) 679-9120

WINDSOR

CANADIAN COMMERCIAL BANKING
L.H.S. Zorn
Vice-President

200 Ouellette Avenue
Windsor, Ontario
N9A 6K9
Telex: 064-77616 MYBANK WND
Tel: (519) 256-5561

WINNIPEG

CANADIAN COMMERCIAL BANKING
R.S. Gammon
Vice-President

DOMESTIC BANKING
J.W. Kirk
Vice-President

REGIONAL TREASURY DESK

INTERNATIONAL BANKING SERVICE CENTRE

Bank of Montreal Building
333 Main Street
Winnipeg, Manitoba
R3C 2R6
Telex: 07-57738 MYBANK WPG
Tel: Canadian Commercial Banking
(204) 985-2366
Domestic Banking
(204) 985-2386

REGINA

CANADIAN COMMERCIAL BANKING
T.W.S. Pope
Vice-President

DOMESTIC BANKING
L.T. Peddle
Vice-President

Bank of Montreal Building
1800 Scarth Street
Regina, Saskatchewan
S4P 2G3
Telex: 07-12694 MYBANK RGA
Tel: (306) 569-5640

CALGARY

CANADIAN COMMERCIAL BANKING
W.W. Holmes
P.A.E.J. Van der Elst
Vice-Presidents

DOMESTIC BANKING WESTERN REGION
R.A. Franklin
Senior Vice-President

CORPORATE AND GOVERNMENT BANKING
D.W. Gough
Senior Vice-President

REGIONAL TREASURY DESK

INTERNATIONAL BANKING SERVICE CENTRE

First Canadian Centre
350—7 Avenue SW
Calgary, Alberta
T2P 3N9
Telex: 03-822827 MYBANK CGY
Tel: (403) 234-3000

EDMONTON

CANADIAN COMMERCIAL BANKING MIDWESTERN DIVISION
Simon Kouwenhoven
Senior Vice-President

DOMESTIC BANKING
G.T. Hicking
Vice-President

Standard Life Centre*
10405 Jasper Avenue
Edmonton, Alberta
T5J 3N4
Telex: 037-2825 MYBANK EDM
Tel: Canadian Commercial Banking
(403) 428-7360
Domestic Banking
(403) 428-7213

**Bank offices are scheduled to move in the fall of 1985 to the Bank of Montreal Building, 10199 101st Street NW, Edmonton.*

VANCOUVER

CANADIAN COMMERCIAL BANKING PACIFIC DIVISION
D.J. Kavanagh
Senior Vice-President

DOMESTIC BANKING
M.R. Mourton
Vice-President

CORPORATE AND GOVERNMENT BANKING
G.W.G. Day
Senior Vice-President

REGIONAL TREASURY DESK

INTERNATIONAL BANKING SERVICE CENTRE

FirstBank Tower
595 Burrard Street
Vancouver,
British Columbia
V7X 1L5
Pacific Division:
Telex: 04-53413 OSVPVCR
Treasury Desk:
Telex: 04-53387 MTL FOREXVCR
Tel: (604) 665-2665

KELOWNA

CANADIAN COMMERCIAL BANKING
R.M.J. Leslie
Vice-President

282 Bernard Avenue
Kelowna, British Columbia
V1Y 6N4
Tel: (604) 861-1740

UNITED STATES

NEW YORK CITY
NEW YORK BRANCH

C.E. Bartliff
Senior Vice-President and Manager

CORPORATE AND GOVERNMENT BANKING

J.G. Day
Senior Vice-President

430 Park Avenue
New York, N.Y.
10022

Corporate and Government Banking
Telex: (RCA) 238 121 MTLA UR
(WUD) 968721 BKM TLA COM NYK
Tel: (212) 605-1400

New York Branch
Telex:
(WUD) 12380 BKMONTREAL NYK
(WUD) 129250 BKMONTREAL NYK
(WUD) 129251 BKMTLSEC NYK
(WUI) 62960 BKMTLS
(ITT) 420064 BKMTLNY
(RCA) 232321 BMNY UR
(TRT) 177620 BKMTL UT
(FTCC) 82712 BKMTL
Foreign Exchange:
(ITT) 424644 SVBO MX
(WUI) 62213 BK MONTFX
Tel: (212) 758-6300

BANK OF MONTREAL TRUST COMPANY

2 Wall Street
New York, N.Y.
10005

CHICAGO
CHICAGO BRANCH

E.J. Muszynski
Vice-President and Manager

CORPORATE AND GOVERNMENT BANKING

S.K. Christensen
Vice-President

115 South LaSalle Street
Chicago, Illinois
60603

Telex: 206253 BK MONTREAL CGO
Tel: (312) 750-4300

HARRIS BANKCORP, INC.

111 West Monroe Street
Chicago, Illinois
60603

DENVER
CORPORATE AND GOVERNMENT BANKING

D.N. Brandt
Representative

600 Seventeenth Street
Suite 2325
Denver, Colorado
80202

Telex: 00450679
BKMONTREAL DVR
Tel: (303) 592-1400

HOUSTON
CORPORATE AND GOVERNMENT BANKING

W.H. Moise
Vice-President

4400 RepublicBank Center
700 Louisiana Street
Houston, Texas
77002

Telex: 77-5640 BKMONTREAL HOU
Tel: (713) 223-4400

LOS ANGELES
CORPORATE AND GOVERNMENT BANKING

R.J. Nicholls
Vice-President

707 Wilshire Blvd.
Los Angeles, California
90017

Telex: (WUD) 674177
BKMONTREAL LSA
Tel: (213) 239-0600

SAN FRANCISCO
BANK OF MONTREAL (CALIFORNIA)
HEAD OFFICE

425 California Street
San Francisco, California
94104

EUROPE

LONDON

LONDON BRANCH

F.A. Comper
Senior Vice-President and Manager

CORPORATE AND GOVERNMENT BANKING

J.-A. Farstad
Senior Vice-President

FIRST CANADIAN FINANCIAL SERVICES (U.K.) LTD.

9 Queen Victoria Street
London, England
EC4N 4XN

Telex: 883577 BOMLDN G
889068 BOMLDN G
889069 BOMLDN G
Tel: (44-1) 236-1010

Forex and deposit dealers
883574 BOMLDN G
883875 BOMLDN G
887095 BOMLDN G
887046 BOMLDN G
885985 BOMLDN G
8952104 BOMLDN G
Tel: FX (44-1) 236-9161
MM (44-1) 236-7041

FRANKFURT

FRANKFURT BRANCH

G.A. Fischer
Walter Luettringhaus
Managers

D-6000 Frankfurt am Main 17
Ulmenstrasse 37-39
Fed. Rep. of Germany

Telex: 414800 BOM D
Tel: (49-69) 71-90-80
Foreign Exchange and Money Market
Telex: 414835 BOMD
Tel: (49-69) 72-42-44/5/6

MADRID

CORPORATE AND GOVERNMENT BANKING

Torre de Valencia
O'Donnell 4
28009 Madrid, Spain

Telex: 43088 BOMS E
Tel: (34-1) 275-4539
(34-1) 275-2422

MILAN

CORPORATE AND GOVERNMENT BANKING

A.V. Russo
Representative

7 Via San Paolo
20121 Milan, Italy

Telex: 320353 BKMONT I
Tel: (39-2) 87-56-08
(39-2) 87-49-44

PARIS

CORPORATE AND GOVERNMENT BANKING

Christiane Costello
Representative

10 Place Vendôme
75001 Paris, France

Telex: 230645 BOMPAR
Tel: (33-1) 260-58-78
(33-1) 260-56-37

ASIA AND AUSTRALIA

TOKYO

TOKYO BRANCH

E.T. Little
Senior Vice-President and Manager

CORPORATE AND GOVERNMENT BANKING

C.F. Davis
Senior Vice-President

Shin Tokyo Building*
3-1 Marunouchi
3-chome, Chiyoda-Ku
Tokyo 100, Japan
Telex: 26637 BANKMONT J
Tel: (81-3) 211-8884

Foreign Exchange and Deposits
Telex: 26105 BANK MONA J
Tel: (81-3) 213-0405

HONG KONG

HONG KONG BRANCH

R.T. Kazuta
Vice-President and Manager

CORPORATE AND GOVERNMENT BANKING

J.C. Wilson
Vice-President

FIRST CANADIAN FINANCIAL CORPORATION LIMITED

Alexandra House
16-20 Chater Road
Hong Kong
Telex: 73731 MONTB HX
Tel: (852-5) 22-41-82

Foreign Exchange and Deposits
Telex: 71955 MONFX HX
Tel: (852-5) 22-41-82
(852-5) 26-00-20
(852-5) 26-00-29
(852-5) 24-39-35

**Effective April 1st, 1985, the Tokyo Branch and Divisional Office will move to the following address:*
1-1 Nihonbashi-Muromachi
2- chome, Chuo-Ku
Tokyo 103, Japan

SEOUL

SEOUL BRANCH

K.R. Bushell
Vice-President and Manager

Dong Sung Building
17-7, 4 Ka.
Namdaemun-Ro
Chung-Ku
C.P.O. Box 8485
Seoul, Republic of Korea
Telex: 23198 MONTBANK K 23198
Tel: (82-2) 778-4491/5

SINGAPORE

SINGAPORE BRANCH

E.J. Ansley
Manager

BANK OF MONTREAL ASIA LIMITED

5 Shenton Way #34-10
Singapore 0106
Republic of Singapore
Telex: 20660 MONTBK RS
20659 MONTBK RS
Tel: (65) 220-1688

Foreign Exchange and Deposits:
Telex: 24490 MONTBK RS
24590 MONTBK RS
34756 MONTBK RS
Tel: (65) 220-2750
(65) 220-2805

BEIJING

CORPORATE AND GOVERNMENT BANKING

Thomas Mah
Representative

Room 104-106
Jianguo Hotel
Jianguomenwai Da Jie
Beijing, People's
Republic of China
Telex: 20444 BMBJ CN
22439 JGHBJ CN
Room No. 104
Tel: (Operator) 502233, local 104

MANILA

CORPORATE AND GOVERNMENT BANKING

J.M.A.L. Hilado
Representative

Metrobank Plaza Building
Senator Gil J. Puyat
Avenue Extension
Makati
Metro Manila, Philippines
Telex: 63917 MONTBK PN
Tel: (63-2) 85-6956

SYDNEY

CORPORATE AND GOVERNMENT BANKING

B.H. Walters
Vice-President

Level 55
MLC Centre
Martin Place
Sydney, N.S.W. 2000
Australia
Telex: 25773 MYBNK AA
Tel: (61-2) 221-2566

LATIN AMERICA

BUENOS AIRES

CORPORATE AND GOVERNMENT BANKING

A.J.G. Racedo
Representative

Rivadavia 611 (1002)
Buenos Aires
Argentina
Telex: (33) 22744 MYBANK AR
Tel: (54-1) 33-4461
(54-1) 33-4739
(54-1) 33-6917

CARACAS

CORPORATE AND GOVERNMENT BANKING

J.L. Schneider
Representative

Edificio Xerox
Avenida Libertador
Bello Campo
Apartado 68415
Caracas 1062
Venezuela
Telex: 26386 MTLBK VC
Tel: (58-2) 32-1189
(58-2) 32-4275

MEXICO CITY

CORPORATE AND GOVERNMENT BANKING

R.J. Salcedo
Representative

Paseo de la Reforma 300
06600 Mexico D.F.
Mexico
Telex: 1771066 BMROME
Tel: (905) 533-30-20

SÃO PAULO

CORPORATE AND GOVERNMENT BANKING

Edifício Cetenco Plaza
Torre Norte—14° andar
Avenida Paulista 1842
São Paulo S.P.
CEP 01310
Brazil
Telex: 1124577 FICA BRSPO
Tel: (55-11) 283-0300

RIO DE JANEIRO

BANCO DE MONTREAL INVESTIMENTO, S.A.—MONTREALBANK

Travessa do Ouvidor NR. 4
Rio de Janeiro—GB
Brazil CEP 20.149

BAHAMAS

NASSAU

NASSAU BRANCH

F.A. Currer
Manager

Harrison Building
P.O. Box N7118
Nassau, Bahamas
Telex: 20453 BOMNAS

BANK OF MONTREAL INTERNATIONAL LIMITED
Telex: 20315 BOMIL

BANK OF MONTREAL BAHAMAS LIMITED
Telex: 20141 BAHMONT
20504 BAHMONT

Harrison Building
P.O. Box N7118
Nassau, Bahamas
Tel: (809) 322-1690

Subsidiaries

BANKING SUBSIDIARIES

Bank of Montreal Bahamas Limited
Harrison Building
P.O. Box N7118
Nassau, Bahamas
Telex: 20141 BAHMONT
20504 BAHMONT
Tel: (809) 322-1690

DIRECTORS
J.H. Warren, O.C.,
Chairman
F.A. Currer,
Managing Director
Sir W. Henderson, Kt. Q.C.
A.G. McNally
A.J. Miller, M.B.E.
G.L. Reuber
J.V.C. Munroe

BRANCHES
Nassau (Two Branches)
Freeport

Bank of Montreal International Limited
Harrison Building
P.O Box N7118
Nassau, Bahamas
Telex: 20315 BOMIL
Tel: (809) 322-1690

DIRECTORS
J.H. Warren, O.C.,
Chairman
W.J. Weber,
Managing Director
Sir G.W. Henderson, Kt. Q.C.
A.G. McNally
A.J. Miller, M.B.E.
G.L. Reuber

Bank of Montreal Asia Limited
E.J. Ansley
Managing Director
5 Shenton Way
Singapore 0106
Republic of Singapore
Telex: 20670 MONTBKRS
Tel: (65) 224-7711

Banco de Montreal Investimento S.A. MONTREALBANK
Travessa do Ouvidor Nr.4
Rio de Janeiro-GB
Brazil CEP 20.149
Telex: 2121956 BAMIBR
2123995 BAMIBR
Tel: (55-21) 224-1800

DIRECTORS
Pedro Leitão da Cunha
Chairman and President
J.H. Cristovão
D.J. Long
A.O. Novais
Paulo Prado
J.G. Schreiber
R.F. Schneider

ADVISORY BOARD
Dr. Antonio Gallotti
Honorary Chairman
W.D. Mulholland
Chairman
E.P. Barbosa da Silva
K.S. Bush
Dr. J.A.M. Chacel
Dr. H.M. Etchenique
A.A. Hodgson
Pedro Leitão da Cunha
Dr. A.V.S. Salgado
J.H. Warren, O.C.

BRANCHES
São Paulo
Belo Horizonte
Brazilia
Campinas
Curitiba
Porto Alegre
Recife
Salvador

The annual reports of the above subsidiaries may be obtained from the Public Affairs Department, Bank of Montreal Head Office, P.O. Box 6002, Place d'Armes, Montreal, Quebec H2Y 3S8.

NON-BANKING SUBSIDIARIES

Bank of Montreal Leasing Corporation
H.M. Smith
President
1 First Canadian Place
Toronto, Ontario
M5X 1A1
Telex: 065-24041 MYBANK TOR
Tel: (416) 867-5000

DIRECTORS
D.A. McIntosh, Q.C.,
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G.L. Reuber,
Vice-Chairman
I.B. Campbell
Serge Gouin
J.J. Byrnes
E.J. Lang
H.M. Smith
C.G. Stratton
P.G. White
J.R. Yarnell

Bank of Montreal Mortgage Corporation
T.R. Alton
President
1 First Canadian Centre
Calgary, Alberta
T2P 3N9
Telex: 03-822827 MYBANK CGY
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DIRECTORS
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Chairman
G.L. Reuber
Vice-Chairman
T.R. Alton
M.W. Barrett
G.D. Birks
André Bureau
E.H. Drew
I.C. Ferrier
S.M. Treat

Bank of Montreal Realty Inc.
J.W. McCool
President
P.O. Box 6002
Place d'Armes
Montreal, Quebec
H2Y 3S8
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Tel: (514) 877-7110

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Chairman
W.E. Bradford
T.C. Camp, Q.C.
C.W. Daniel, O.C.
D.J. MacKenzie
J.W. McCool
R.J. Plant

The annual reports of the above subsidiaries may be obtained from the Public Affairs Department, Bank of Montreal Head Office, P.O. Box 6002, Place d'Armes, Montreal, Quebec H2Y 3S8.

First Canadian Mortgage Fund*
1 First Canadian Place
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M5X 1A1
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Tel.: (416) 867-5000

TRUSTEES
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T.R. Alton
President
M.W. Barrett
H.E. Dynes
Mrs. C.M.L. Gault
G.L. Reuber
Jean Robitaille

**A mortgage-based mutual fund administered by Bank of Montreal*

HARRIS BANKCORP, INC.

P.O. Box 755
111 West Monroe Street
Chicago, Illinois
60690
Telex: 254157 HARRISTER CGO
Tel: (312) 461-2121

EXECUTIVE OFFICERS

B. Kenneth West
Chairman of the Board and Chief Executive Officer

Philip A. Delaney
President

Richard L. McAuliffe
Executive Vice-President and Treasurer

DIRECTORS

Leland C. Adams
Executive Vice-President
Standard Oil Company (Indiana)
Chicago, Illinois

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Chairman of the Board and Chief Executive Officer
Baird & Warner, Inc.
Chicago, Illinois

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Retired Chairman of the Board
Harris Bankcorp, Inc.
Chicago, Illinois

O.C. Davis
Chairman
MidCon Corp.
Lombard, Illinois

Philip A. Delaney
President
Harris Bankcorp, Inc.
Chicago, Illinois

Wilbur H. Gantz
Executive Vice-President and Chief Operating Officer
Baxter Travenol Laboratories, Inc.
Deerfield, Illinois

James J. Glasser
Chairman of the Board and Chief Executive Officer
GATX Corporation
Chicago, Illinois

Daryl F. Grisham
President and Chief Executive Officer
Parker House Sausage Company
Chicago, Illinois

Huntington Harris
Trustee
Estate of Norman W. Harris
Leesburg, Virginia

Stanley G. Harris, Jr.
Formerly Chairman of the Board
Harris Bankcorp, Inc.
Chicago, Illinois

William D. Mulholland
Chairman of the Board
Bank of Montreal
Toronto, Ontario

Mary Petrie
Treasurer
The University of Chicago
Chicago, Illinois

Grant L. Reuber
President
Bank of Montreal
Toronto, Ontario

John J. Schmidt
Chairman and Chief Executive Officer
Sante Fe Pacific Corporation
Chicago, Illinois

Edmund A. Schroer
Chairman, President and Chief Executive Officer
Northern Indiana Public Service Company
Hammond, Indiana

Daniel C. Searle
Chairman of the Board
G.D. Searle & Co.
Skokie, Illinois

Ormand J. Wade
President and Chief Executive Officer
Illinois Bell Telephone Company
Chicago, Illinois

B. Kenneth West
Chairman of the Board and Chief Executive Officer
Harris Bankcorp, Inc.
Chicago, Illinois

Edward J. Williams
Chairman and Chief Executive Officer
McGraw-Edison Company
Rolling Meadows, Illinois

HARRIS TRUST AND SAVINGS BANK

111 West Monroe Street
Chicago, Illinois 60603
Telex: 254157 HARRISTER CGO
Tel.: (312)461-2121

Executive Officers

B. Kenneth West
Chairman of the Board and Chief Executive Officer

Philip A. Delaney
President

Rolland S. Carlson
Executive Vice-President Operations Department

Richard L. McAuliffe
Executive Vice-President Financial Administration

Ben T. Nelson
Executive Vice-President Banking Department

Dennis E. LeJeune
Executive Vice-President Investment Department

David S. Finch
Executive Vice-President Trust Department

John L. Stephens
Executive Vice-President Public and Employee Relations

John A. Sivright
Executive Vice-President Banking Department

Banking Facilities

311 West Monroe Street
Chicago, Illinois 60603
Tel.: (312) 461-2121

Board of Trade Building
Chicago, Illinois 60604
Tel.: (312) 461-6401

Loan Placement Offices

707 Wilshire Blvd.
Los Angeles, California
90017
Telex: (WUD) 674177
BKMONTREAL LSA
Tel.: (213) 239-0600

Four Embarcadero Center
San Francisco, California
94111
Telex: (WUD) 34201 BKMONTREAL SFO
Tel.: (415) 391-8060

430 Park Avenue
New York, N.Y.
10222
Telex: (RCA) 238 121 MTLA UR
(WUD) 968 721 BKM TLA COM NYK
Tel.: (212) 758-6300

Investment Department Representative Offices

444 South Flower Street
Suite 2490
Los Angeles, California 90071
Tel.: (213) 629-8323

1 Chase Manhattan Plaza
New York, N.Y. 10005
Tel.: (212) 791-1240

International Banking Facility

111 West Monroe Street
Chicago, Illinois 60603
Telex: 253417 HARISINT CGOA
Tel.: (312) 461-2121

International Branches

3 Queen Victoria Street
London, England
EC4N 8EL
Telex: 884932 HATR AG
Tel.: (44-1) 248-0364

Post Office Box N7768
Nassau, Bahamas
Telex: 190204 HARRISTRSY
Tel.: (312) 461-6111

International Representative Offices

Edificio Plaza Comermex 607
Boulevard Manuel Avila
Camacho No. 1
Mexico 10, D.F., Mexico
Tel.: (905) 540-47-12

Yurakucho Building
10-1, Yurakucho, 1-Chome
Chiyoda-ku
Tokyo 100, Japan
Telex: JZ 5909 HTSBTK
Tel.: (81-3) 215-3465

Avenida Paulista, 1274
12th Floor—Suite 1201
São Paulo, S.P., Brazil
Telex: 1122269 HIAS BR
Tel.: (55-11) 287-4633

Subsidiaries

HARRIS BANK INTERNATIONAL CORPORATION
345 Park Avenue
New York, N.Y. 10154
Telex: (RCA)235616 HBICUR
(WU)668785 HBIC
(WU)662435 HBIC
(TT)423129 HBICUI
Tel.: (212) 486-6060

HARRISCORP LEASING, INC.
111 West Monroe Street
Chicago, Illinois 60603
Telex: 254157 HARRISTER CGO
Tel.: (312) 461-7706

GLENCOE NATIONAL BANK
L.E. Freyer
President and Chief Executive Officer
333 Park Avenue
Glencoe, Illinois 60022
Tel: (312) 835-5400

THE FIRST NATIONAL BANK OF HINSDALE
E.D. McCarthy
President and Chief Executive Officer
First and Lincoln Streets
Hinsdale, Illinois 60521
Tel: (312) 920-7000

BANK OF NAPERVILLE
G.W. Stearns
President and Chief Executive Officer
503 North Washington Street
Naperville, Illinois 60540
Tel: (312) 420-3500

HARRIS BANK ROSELLE
E.C. Ernsting
President and Chief Executive Officer
106 East Irving Park Road
Roselle, Illinois 60172
Tel: (312) 980-2700

HARRIS BANK ARGO
C.P. Schmid
Chairman, President and Chief Executive Officer
7549 West 63rd Street
P.O. Box 325
Summit, Illinois 60501
Tel: (312) 458-5800

THE FIRST NATIONAL BANK OF WILMETTE
T.H. Werner
Chairman and Chief Executive Officer
M.M. Myers
President
1701 Sheridan Road
Wilmette, Illinois 60091
Tel: (312) 256-5610

THE FIRST NATIONAL BANK OF WINNETKA
T.H. Werner
President and Chief Executive Officer
520 Green Bay Road
Winnetka, Illinois 60093
Tel: (312) 441-4444

HARRIS TRUST COMPANY OF ARIZONA
T.F. Jones, Jr.
President
6710 East Camelback Road
Scottsdale, Arizona 85251
Tel: (602) 949-7800

HARRIS TRUST COMPANY OF FLORIDA
J.L. Owen
President
501 South Flagler Drive
West Palm Beach
Florida 33401
Tel: (305) 833-6650

HARRIS TRUST COMPANY OF NEW YORK
J.J. Doran
President and General Manager
110 William Street
New York, N.Y. 10038
Tel: (212) 608-8400

HARRISCORP FINANCE, INC.
W.L. Johnson
Vice-President and General Manager
111 West Monroe Street
Chicago, Illinois 60603
Tel: (312) 461-2041

HARRIS FUTURES CORPORATION
R.W. Goetter
President
111 West Monroe Street
Chicago, Illinois 60603
Telex: 190204 HARRIS TRSY
Tel: (312) 461-6298

Other Subsidiaries

Bank of Montreal Trust Company*

C.E. Bartliff
President

Z.G. Klodnicki
Vice-President and Trust Officer

2 Wall Street
New York, N.Y.
10005
Telex: (RCA)226783 BMNY
(TRT)13737 BMTLSEC
Tel: (212) 306-7150

Bank of Montreal (California)*

C.R. Myers
President

P.E. Roxborough
Secretary

K.M. Rydberg
Vice-President, Cashier, and Chief Financial Officer

425 California Street
San Francisco, California 94104
Telex: (WUD)34201 BKMONTREAL SFO
Tel: (415) 391-8060

**Bank of Montreal Trust Company and Bank of Montreal (California) no longer operate as commercial banks. When conversion is approved by regulatory authorities, both will function as trust companies in the United States.*

Application has been made to the appropriate authorities for permission to transfer the shares of these subsidiaries to Harris Bankcorp, Inc.

NEW YORK, C. 1917

The Bank of Montreal was the first Canadian bank with an office in New York in 1818. A permanent agency opened in 1859 to coincide with the first rail link from Montreal and, in 1879, the Bank floated the first foreign loan on the U.S. market. Portrayed here are Messrs. McGee (from left), Tracy and Fisher who ran the Bank of Montreal Agency at 64 Wall Street, site of the Buttonwood Tree where the first U.S. stockbrokers met and organized the New York Stock Exchange.

InfoService Centres

Bank of Montreal has established a national network of InfoService Centres where the public may call or write for information or to request help in solving banking problems. InfoService Centres are staffed during business hours and all offices have toll-free numbers. Following is a list of those centres.

EASTERN REGION

Bank of Montreal Tower
5151 George Street
Halifax, Nova Scotia
B3J 3C4
Local calls: (902) 429-7420
Toll-free long distance:
1-800-565-7132

Bank of Montreal
Place d'Armes
P.O. Box 6002
Montreal, Quebec
H2Y 3S8
Local calls: (514) 877-1285
Toll-free long distance:
1-800-361-1854

CENTRAL REGION

Bank of Montreal Tower
55 Bloor Street W.
17th floor
Toronto, Ontario
M4W 1A5
Local calls: (416) 927-6000
Toll-free long distance:
1-800-387-1342

WESTERN REGION

Bank of Montreal Building
333 Main Street
Winnipeg, Manitoba
R3C 2R6
Local calls: (204) 985-2373
Toll-free long distance:
1-800-665-0002

First Canadian Centre
350-7 Avenue SW
Calgary, Alberta
T2P 3N9
Local calls: (403) 290-0200
Toll-free long distance:
1-800-372-9579

Bank of Montreal Tower
595 Burrard Street
15th floor
Vancouver, B.C.
V7X 1L5
Local calls: (604) 665-2700
Toll-free long distance:
112-800-663-0241

The Bank issued Canada's first permanent currency beginning in 1817, its first year of operation. The bank-notes, all signed by hand, remained official currency until Confederation in 1867 when the government began issuing notes below the value of $4. The Bank of Canada issued all currency following its founding in 1935.

Legal deposit, 4th quarter (1984).
Bibliothèque nationale du Québec. (On peut obtenir sur demande un exemplaire en français).
For copies of the Annual Report, please write to the Public Affairs Department, P.O. Box 6002, Place d'Armes, Montreal, Que. H2Y 3S8, or to the Division headquarters in your region. (See listing at the back of this report).

BANK OF MONTREAL